

OCEAN MAIL CONTRACTS

UNITED STATES SENATE
DIGEST OF STATEMENTS AND COMMENTS
IN THE CONGRESSIONAL RECORD
THIRD SESSION, SEVENTY-FIRST CONGRESS
RELATIVE TO
OCEAN MAIL CONTRACTS UNDER TITLE IV OF THE
MERCHANT MARINE ACT, 1928, AND TO SENATE
DOCUMENT No. 210, ENTITLED: THE TRUTH
ABOUT THE POSTAL CONTRACTS



PRESENTED BY MR. MCKELLAR

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OCEAN MAIL CONTRACT

UNITED STATES MARINE

POST OFFICE STATISTICS AND FINANCIAL

IN THE MONTH OF JANUARY

THIS REPORT IS FOR THE MONTH OF

JANUARY

THE REPORT IS FOR THE MONTH OF

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OCEAN MAIL CONTRACTS

CHAPTER I

RELATIVE TO ITEMS IN THE RECORD OF DECEMBER 20, 1930, UNDER THE TITLE: TREASURY AND POST OFFICE APPROPRIATIONS

Mr. KING. I want to ask the Senator if the greater part of that appropriation is not a pure subsidy, and is in excess even of the operating expenses of the ships?

Mr. MOSES. Mr. President, the latter part of that question I can not answer, and I do not think anybody in the Post Office Committee of either House or Senate can answer it.

As to the first part of the question, undeniably a certain portion of this sum is in the nature of a subsidy. I have never sought to conceal my view about that, but inasmuch as the Congress has apparently determined that this is the method in which it will undertake to encourage ocean-borne commerce, I accept it, although for myself I would much rather frankly appropriate money for a subsidy, and call it such.

Mr. KING. Mr. President, will the Senator let me have the floor for a few minutes?

Mr. MOSES. I yield the floor to the Senator.

Mr. KING. Mr. President, I have a letter written me by one of the most distinguished Senators upon the floor, one who has perhaps given more attention to merchant-marine problems than any man in public life. I refer to the senior Senator from Florida [Mr. Fletcher]. In that letter he directs my attention to an important publication presented by the Senator from Tennessee [Mr. McKellar] on June 30, 1930, and printed as a public document. The publication is entitled "The Truth About the Postal Contracts." In the letter to which I refer appears:

The facts revealed in this Senate document relate to a field with which I am fairly familiar, and the document itself has been carefully examined by me. It is a splendid piece of work, and the author has rendered a fine public service. The abuses not only obviously possible under the present law but which have been actually committed in existing contracts are so flagrant that we should be prompted to review and give consideration to all legislation employing postal contracts as an aid to our merchant marine. I am speaking as a friend of the merchant marine, and it is needless to mention to a colleague that I have been a firm supporter in the Senate for many years in aid of our merchant marine.

When we find, for instance, such contracts on the Atlantic as that with the Munson Line, between New York and Buenos Aires, where the company not only received an initial subsidy of many millions in being sold four magnificent vessels for about one million each, which cost the Government over seven million each to build, and is then given a mail contract which will yield it over \$13,000,000, and without any obligation whatever to build a single new vessel in return for this munificent bonus from the Public Treasury, and when

we find a still worse illustration—in dollars, though not in principle—on the Pacific in two contracts with the Dollar Steamship Co. for services between the Pacific coast and Manila, P. I., from which that company will reap over \$27,000,000, and also without any contract obligation to build any new vessels, you will understand why I consider the matter so important and as calling for prompt action.

Mr. JONES. Mr. President, will the Senator permit me a word there?

Mr. KING. I yield.

Mr. JONES. I think it is fair, in connection with the statement the Senator has just made and read, and which I am not questioning, as far as that is concerned, to state that I am sure the Senator knows that we had quite a controversy over the Dollar contracts and after a long controversy they were approved, and while they were not required under the contract to build new ships, I think I ought to put into the Record the fact that they are building two of the finest up-to-date ships to engage in that Pacific trade that we will have.

For information about these two ships, and statements that they were not being built under the contracts involved, see pages 24, 44, and 48.

Mr. KING. But they borrowed the money from the Government at $1\frac{1}{2}$ per cent or less for a period of 20 years.

Mr. McKELLAR. One and eight-tenths per cent.

Mr. JONES. They are probably taking the same course others have taken. I am not excusing any of those things, but I am just calling attention to the fact that they are actually building two fine, new, up-to-date ships.

Mr. McKELLAR. Mr. President, will the Senator from Utah yield to me?

Mr. KING. I yield.

Mr. McKELLAR. While that is true, that is just a means of getting another subsidy from the Government to pile on that which they already have.

Mr. MOSES. Mr. President, will the Senator from Utah yield to me?

Mr. KING. I yield.

Mr. MOSES. Before the Senator leaves the subject of the ocean mail pay to steamships, I think it wholly pertinent to say that much of the difficulty in which we found ourselves regarding the problems which the Senator from Utah now presents has come from the fact that two different departments of the Government have been dealing with this question. We had the Fleet Corporation and the Shipping Board on the one hand, and the Post Office Department upon the other. The result was that Congress has found itself confronted by mail contracts made in pursuance of the statute, and unless Congress intends to repudiate the acts of executive officers, which are carried forward under statutes supposedly deliberately adopted by Congress, there is no recourse for us except to make these appropriations.

I want to make this suggestion to the Senator from Utah in connection with this matter. There happens to be at the minute in existence in the Committee on Post Offices and Post Roads a subcommittee which is dealing with another branch of postal transportation, and the functions of that subcommittee can be readily enlarged in the Committee on Post Offices and Post Roads so as to

take up this other question also. If that were done, I think without question we could then secure a set of facts upon which in another year, when the post-office appropriation bill comes here, we will have a structure of information upon which to base our action.

Mr. McKELLAR rose.

Mr. MOSES. I am glad to see the Senator from Tennessee on his feet as I make that suggestion, because he knows the subcommittee to which I refer; he knows the proposal before the committee upon which that subcommittee is to act; and he, with his great experience in the committee and his knowledge of all these matters of postal transportation, I think will readily see the point of the suggestion which I am making.

Mr. McKELLAR. Mr. President, I want to say to the Senator from New Hampshire, if the Senator from Utah will yield, that I do see the point of that suggestion. I think it is a very wise suggestion, and I hope the Senator will enlarge the motion he has heretofore made, which has already been passed, so as to give the subcommittee jurisdiction over these mail contracts, and all mail contracts, to examine and report to the next session of Congress.

Mr. MOSES. Mr. President, I chance to be chairman of that subcommittee, the Senator from Tennessee is the ranking minority member of the subcommittee, and I have no doubt that he and I can readily agree upon a form of words which will make possible a complete and accurate informative study of this whole subject.

Mr. McKELLAR. I will be very happy to cooperate with the Senator from New Hampshire.

Mr. KING. Mr. President, the work which will be done by that subcommittee, however, does not cover past transactions. It will not invalidate, and can not, perhaps invalidate, some of the long-term contracts under which subsidies have been and are being paid, far in excess of what would be legitimate subsidies, even though we believed in subsidies and adopted their payment for the purpose of aiding the development of a merchant marine.

Mr. MOSES. That is true, Mr. President, but, of course, the Senator from Utah recognizes that situations like that are constantly arising; and while we may not be ex post facto in what we do, we certainly can close the door against abuses in the future.

Mr. KING. Mr. President, I want to ask the Senator whether this large appropriation of \$36,000,000 carried in this bill was investigated by the committee with a view to determining whether the contracts under which subsidies are paid are valid; whether the contracts were in harmony with the spirit of the law, even though perhaps they may have been in most instances in harmony with the technical construction of the law? My information is that some contracts were entered into wherein shipping lines had been established, and where no subsidies were required, under the claim that they were necessary in order to build up operating lines.

* * * * *

Mr. McKELLAR. Mr. President, will the Senator yield?

Mr. KING. I yield.

Mr. McKELLAR. Of course those are subsidies, and, as everybody knows, under the law which has been passed, subsidies to which I never agreed and do not agree now, but they were subsidies never-

theless. In that connection I want to ask the Senator from New Hampshire, if I may in the time of the Senator from Utah, whether he can give any estimate as to about how much these subsidies paid by the Post Office Department amount to. The purpose of the question is this: As the Senator knows, there was a very large deficit in the Post Office Department for the last two or three years, perhaps for several years. How much of that deficit is due to the subsidies granted to the steamship and aircraft carriers, just in a general way?

Mr. MOSES. Mr. President, I can not answer that in terms of dollars, and even at the risk of stimulating the Senator from Utah to another line of inquiry, I can only recall to the Senator from Tennessee an episode which took place as the conferees were discussing the items in this bill, when the allegation was made and pretty well supported by some of the House conferees, that at least 70 per cent of one item of appropriation in this bill constituted a subsidy.

The Senator from Tennessee will forgive me if I try to state his position—he and I, who had been actively cooperating at the beginning of the appropriation for air mail service, took the position that we had to encourage the aircraft industry.

Whether the percentage of encouragement under these appropriations for the ocean-borne mail is too great or not I do not know. But I am firmly convinced that the Congress ought to have the information, and I hope that in view of the ready acquiescence which the Senator from Tennessee has indicated in the suggestion which I advanced a few minutes ago, we may have that information before another Post Office Department appropriation bill comes here.

Mr. McKELLAR. Mr. President, my recollection is, if the Senator will permit me, that we fixed a limit for the Postmaster General in fixing a rate both as to air mail and as to steamship companies, and that he has given a limit in making the contract.

Mr. MOSES. That is my recollection.

Mr. KING. Mr. President, I have an engagement and am compelled to now leave the Chamber. There are further points I should like to discuss, but can not do so at this time. I ask permission to insert in the Record as a part of my remarks excerpts from page 3 of this public document (No. 210) entitled "Monopoly in Bidding," and from pages 8, 9, and 10, under the heading "Subsidies very excessive."

The PRESIDING OFFICER. Is there objection?

There being no objection, the matter was ordered to be printed in the Record, as follows:

II. MONOPOLY IN BIDDING

COMPETITION WAS EXCLUDED, INTENTIONALLY EXCLUDED, BY SPECIFICATIONS, COMPLIANCE WITH WHICH WAS POSSIBLE BY ONE PERSON ONLY

The monopoly in bidding resulted, primarily, from the certifications made by the Shipping Board relative to kind, size, and speed of vessels "required" for the postal route involved. The exclusion of all bids other than the preferred line was perfected by two limitations imposed by the Postmaster General, viz: (a) The short time allowed within which to present a bid and (b) the very early date by which the operation of the service was required to commence.

Under section 403 the Postmaster General is required, before he invites bids for the proposed ocean route, to ascertain from the board—

"* * * the type, size, speed, and other characteristics of the vessels which should be employed on each such route; the frequency and regularity of their sailings; and all other facts which bear upon the capacity of the vessels to meet the requirements of the service proposed by the Postmaster General."

The text of this mandate clearly intends that, prior to the certification being made by the board, a careful investigation should be made of the trade route involved, both with reference to the competition by foreign vessels there to be met and to the commercial needs of the route irrespective of such competition.

Even if there was no foreign-vessel competition on the particular route, important inquiries remained desirable to determine the adequacy, efficiency, and rate factors required to promote American commerce by that route in its competition with the transportation of similar commerce between other countries and the same point.

The transportation problem is greater than securing to American vessels the transportation of the commerce, in fact, enjoyed by the United States; it has an important part in the increase and extension of that commerce. To illustrate: Importers of copra from the Philippine Islands, through our Atlantic ports, have been unable at times to secure cargo space, with the result that imports normally belonging to the United States for processing, etc., have not only moved in foreign vessels, but to foreign countries, there to be processed and exported.

Now, the investigation of these matters is not reposed in the Post Office Department; it rests on the Shipping Board as a necessary preliminary to the certification it is required to make.

Instead of having an investigation made, the board in most instances simply ascertained the vessels and the number of voyages a favored line was operating and made its certification to conform to the service maintained by the fortunate line. To illustrate:

The board was asked by the Postmaster General to certify appropriate vessels on the route from New York to Mediterranean ports. Having confirmed that the service then and there operated by the Export Steamship Co. was with 10-knot vessels of about 4,000 gross tons, and that it had a sufficient fleet to make 84 voyages per annum, its certification conformed to these facts, and that line was the only and the successful bidder, and at maximum rates.

Had ample time been given other bids would have at least been possible; but it was not, for the Postmaster General required, first, that bids must be submitted within 30 days—a time wholly insufficient for new interests to survey the field and determine whether a bid by them would be justified; and, second, had other persons decided to bid provided time was given to acquire equipment, adequate time was not given; it was required that operation should commence within 30 days of the award of the contract, and no one but the then operator could meet this condition.

The undertaking by new interests would have involved not only the acquisition (possibly by new construction) of at least 18 vessels, but also securing terminal facilities at many foreign ports, and also other important commercial and financial arrangements.

While the text of the law, if intended as a subsidy, is in many respects defective, its provisions made wholly unnecessary the undue speed attending the award of these contracts; for instance: The law provided (sec. 414f) as much as 12 months from June 30, 1928, through which investigations could have been made, wise procedure developed, and reasonable time given prospective bidders to examine and consider the matter, within a reasonable time limit for bidding.

The commencement of operations under the contract could also have been fixed to allow prospective bidders time within which to secure necessary equipment, etc., with which to perform. The text reads (sec. 403, "Performance under any such contract shall begin not more than three years after the contract is let * * *," a provision clearly contemplating that an award may be made to a company which may have to build new vessels for performance.

The following is a sample of what in fact was done: The act was approved May 22, 1928. On May 24, two days later, the Post Office Department immediately adopted a group of routes for certification; they were in fact routes which had been previously recommended by the board. On May 29 the board certified the vessels' requirements, in the manner and on the basis we have described.

The advertisements inviting bids were then immediately inserted, viz, on June 9, 1930; they required bids to be presented by July 9, 1930, or within less than 30 days from the first appearance of the publication. More serious than these, however, was the requirement that performance of the contract should commence on August 1, 1930.

This speed seems to have been unjustified from every point of view. Prompt movement of the mails was not involved, not only because the new act provided for the extension of the existing contracts for a term not exceeding one additional year, but also because, if such contracts were not extended, the steamship services were there and in the absence of any contract, their legal obligations to convey the mails was definite and certain—at the poundage rates.

Such a system is not only prejudicial to the Treasury of the United States and the rights of other citizens, it is prejudicial also to the development of our merchant marine, as illustrated in the contract awarded.

* * * * *

IV. SUBSIDIES VERY EXCESSIVE

THE SUBSIDIES GREATLY EXCEED THE HANDICAP OF AMERICAN VESSELS IN FOREIGN TRADE; THEY GREATLY EXCEED ALSO THE OPERATING DEFICITS OF THE SUBSIDIZED LINES

A ship subsidy is an extension of the protective tariff system; it is justified by similar economic conditions, and legal requirements relative to the operation of vessels further augment the handicap.

Among the normal economic items are the facts that it costs much more to build a vessel in the United States than in foreign yards; also, the wages paid the crew are higher. The legal handicap mentioned results from our seamen's laws. As a result, the cost of operating a vessel under the American flag is greater than operating a similar vessel under foreign flag.

We refer to these differences in the aggregate as the "handicap" of American vessels when in competition with foreign vessels. A subsidy, therefore, should not be awarded vessels operating in coastwise trade, including, of course, our intercoastal trade, as foreign vessels are not permitted by law to operate on those routes.

The most ardent advocate of a ship subsidy would not expect the enactment of a law which would yield to any vessel or line a subsidy greater than the sum of these items: (a) The operating deficits; (b) a proper annual deduction for depreciation in value of the vessel; (c) reasonable interest or dividend on the money invested. When the "compensation" is greater than these the excess is not a subsidy in a normal sense; it is a gift from the Public Treasury.

It may be challenged whether all the factors we have mentioned above should be recognized, unless qualified by a proviso that the operating deficit, if any, must not exceed the amount it would be under efficient and economical operation. To illustrate:

A deficit resulting in part from the payment of \$100,000 annual salary to the president, as has been done by the Export Steamship Co., obviously does not deserve recognition nor can it be justified by the depletion of revenues to the profit of a subsidiary corporation, as also done by that company, to the extent of \$250,000 in a single year, when such "profits" certainly might (and we think, certainly should) have been retained by the parent company, as a reduction of its costs of operations. The profits accrued to the subsidiary mainly, if not solely, from the activities of the parent company. More extended references to this line will be found at page 24.

Among the contracts which have been made are a number which yield "compensation" greatly in excess of either of the subsidy tests mentioned. They exceed not only the competitive handicap but also the amount of the deficits actually sustained, as shown by the company's own statements, respectively. To illustrate:

THE GRACE STEAMSHIP CO.

The contract awarded this company, dated July 13, 1928, is for 10 years and provides for 26 voyages on the route from New York to the west coast of South America. The initial service required by the contract is substantially the same service the company has maintained for many years. The "compensation" exceeds \$645,000 annually.

On the basis of its own financial statements the Grace Line is not entitled to the subsidy it has obtained. It is, of course, entitled to reasonable compensation for the transportation of mails in fact carried by any of its vessels; it is entitled to pay on that basis irrespective of its total earnings or its wealth. When this test is abandoned and a subsidy is proposed, the operating deficits or earnings of the line involved become an important factor.

An examination of its financial statements reveals that its operating income for 1927 not only exceeded operating expenses, but yielded also a substantial dividend. These statements are based on strictly business computations. The amount labeled "earnings" is the amount remaining, not only when "out of pocket" voyage expenses are deducted, but when there have been also deducted administrative expenses, also insurance, and also a proper percentage for depreciation.

Now, a deduction for "depreciation" is an amortizing of capital investment. In other words, the statement shows that the earnings were large enough, not only to pay all expenses and yield substantial dividends, but also to yield funds for replacements on a scale proportionally sufficient to meet the cost of new vessels when the present vessels are scrapped. The following is based on the statements referred to:

Financial items of the Grace Steamship Co., 1927

Gross revenues incident to operations.....	\$5, 019, 000
Total expenses incident to operations.....	3, 950, 000
Net revenues (excluding depreciation).....	1, 069, 000
Depreciation: Deduct for depreciation on vessels involved; this deduction being the equivalent of amortization or replacement....	¹ 449, 000
Net profits, incident to the operation of 4 vessels whose book value was less than \$3,000,000.....	620, 000

The fact the agreement is in form a contract for the transportation of mails does not change the basic fact that it is a subsidy. The Grace Line was not dependent on Government aid to assure maintenance of the service, and yet it has a subsidy exceeding \$24,000 for each outward voyage, even with the vessels it is now operating, not one of which was built because of this contract having been awarded. As a minimum of 26 voyages per year is authorized, the compensation aggregates and exceeds \$600,000 per annum.

That such compensation is excessive, for the mere transportation of mail, is revealed by the fact that from August 1, 1928 (the date the terms of the contract commenced), to September 30, 1929, a period of 14 months, the total mail transported on the outward voyage involved was as follows:

	Letters	Prints	Parcel post
	<i>Pounds</i>	<i>Pounds</i>	<i>Pounds</i>
United States mails.....	106, 750	929, 718	730, 070
Foreign mails.....	39, 191	760, 430	5, 252
Total.....	145, 941	1, 690, 148	735, 322

The compensation fixed by the International Postal Union is less than 27 cents per pound for letters, and less than 4 cents per pound for prints and parcel post, hence the strictly commercial value of the compensation, tested by the amount which would have been paid a foreign vessel, is less than \$137,000.

Our law, however, quite apart from this 1928 act, authorizes a higher payment per pound to American vessels. It authorizes 80 cents per pound for letters and 8 cents per pound for prints and parcel post; which rates themselves are subsidizing rates, because greatly in excess of the strictly commercial value of the transportation; but even on this basis, for the United States mails, the total amount earned for all mails carried, would have been less than \$260,000. The total amount, in fact, received under the contract, for the sailings involved, was \$763,000, hence that part of the \$763,000, which thus constitutes a subsidy, is more than \$625,000, for the brief period of 14 months.

¹ This amount is the company's computation and is in fact excessive.

When the beneficiary is earning good dividends without Government aid, obviously the subvention is unnecessary, even when subventions, in proper cases, are authorized by law. The figures cited demonstrate that the Grace Steamship Co. was not entitled to a subsidy for this route, certainly not so large a subsidy as the one granted, if any. It secured this unusually lucrative contract under circumstances substantially as follows: An advertisement of the postal route was inserted, the terms of which were such that one, and only one, company could comply, viz, the Grace Steamship Co. Knowing this, a bid was presented by that company naming the maximum compensation the law authorizes for the class of vessels involved. The Post Office Department then apparently reasoned: The route has been advertised; a bid has been received; it is the lowest bid; let the "contract" be awarded! The fact that it was the only bid, and the bidder knew with practical certainty, in advance of the bid, that it would be the only bid; the fact that it was for the maximum authorized by law; and for an amount greatly in excess of reasonable compensation for the act of transportation rendered; and the fact that, even from the viewpoint of a subsidy, the earnings were so large that such Government aid was unnecessary to assure its maintenance, all appear to have been regarded as uncontrolling.

The award of maximum rates, under the circumstances mentioned, can not be upheld merely by the fact that the law mentions such rates; they are mentioned only as the maximum; it does not intend and the law will not permit the Government to be cornered, merely because bids are invited, and there is but one bid! A bid based on specifications with which only one person can comply, is not a competitive bid. The bidder, under such circumstances, is not the "lowest bidder." To award the contract to such a bidder, under such circumstances, at the highest rate of compensation possible, and without applying either the test of reasonable compensation or the test of the financial necessities of the service, presents a seemingly incredible situation; yet, a document has been signed, purporting thus to bind the Government for a period of 10 years. Through that period, should the contract be continued that long, there will be paid to the company more than \$7,000,000.

Mr. VANDENBERG. Mr. President, will the Senator yield?

Mr. KING. I yield the floor.

Mr. VANDENBERG. Before the Senator yields the floor I should like to invite his attention to one other phase of the subsidy question before we leave it. The subsidy to which he refers may be a matter of argument, but there can be no argument regarding the intention of Congress originally or now that the shipbuilding loans should not cost the Government money. It certainly was the intention of Congress that the credit of the Government should be loaned without profit or loss under the Jones-White Act, but due to the cheapness of public money on short-time loans at the present time we are loaning at as low as $1\frac{7}{8}$ per cent interest for a period of 20 years. We are loaning public money which, if history teaches us anything, will cost the Government $3\frac{1}{2}$ per cent average during that period.

Mr. KING. I hope the Senator's bill will be speedily passed.

Mr. VANDENBERG. I invite the Senator's attention further to the fact, as proving the necessity for Senate action, that there are three loans now pending before the Shipping Board which total \$18,000,000. Unless the pending bill (Calendar No. 520) is passed, and passed with reasonable promptness, the Government in the course of the next 20 years will probably lose \$5,600,000 upon these three loans, to say nothing of many others. The legislation tending to correct that matter needs only the consent of the Senate in the next calendar hour to pass it.

Mr. KING. I shall be very glad to join the Senator in asking to have it passed.

Mr. FLETCHER. Mr. President, I certainly hope the Senate will take up the bill to which the Senator from Michigan has referred and act upon it promptly. It was not the intention, when the legislation under which they are now proceeding—the act of 1928—was enacted, that the Government should be called upon to suffer any loss. The bill to which the Senator from Michigan refers proposed to correct that situation, so as to let the shipbuilders have the funds at practically what those funds cost the Government, but without any loss to the Government. I certainly hope the bill will pass.

On the question of subsidies and aid to shipping, let me say that it is a very important matter. At some other time I may take occasion to go into it in extenso. At present I shall not delay the action promised immediately on the conference report by any lengthy discussion of the subject. I want to invite attention, however, to certain features of the situation.

I do not entirely agree with the conclusions of Mr. Nicolson regarding subsidies. I have opposed direct subsidies. When the act of 1928 was passed I did not understand that we were providing for a real subsidy, a subsidy whereby private individuals operating ships anywhere, tramps and otherwise, would be entitled to come in and get money from the Government. It was represented, when we had the hearings on that bill, that to a very large extent the increase in postage and the other credits to this fund would probably equal about what we were paying for carrying the ocean mail, and that the Government very likely would not be out of pocket at all. Of course, it was an estimate. It was felt that with the increase in mails and otherwise the revenue derived would probably equal about what we were paying for carrying the mails. That was the supposition at the time. But evidently thus far that condition has not been reached, if it ever will be. The fact is, I think, it is going the other way. The first appropriation for ocean mail carrying provided something like \$18,000,000. Now in two years we have reached \$36,000,000, and it may be that next year there will be even an increase over that amount, which is alarming.

Senate Document No. 210, to which attention has been invited, contains many of the facts about which I knew; in fact, I called attention to some of them in the Senate heretofore and to some of the sacrifice sales that have been made. I protested, but my protest did not attract much consideration or apparently do much good. This document gives additional information upon the subject, and I regard it as very important information which the Senate ought to have. It is a most enlightening document and gives facts which I have no right to question from a gentleman who was formerly director of several bureaus of the United States Shipping Board, charged with promotional work in aid of private lines, and who likewise was counsel to the committee on legislation of the Shipping Board. He is in a position to know the circumstances of the transactions and the facts which have not been heretofore available to us. The facts stated in this document would appear almost *ex cathedra*. I do not mean they were concealed, but I mean they were not before us.

I felt that this is a document which ought to be brought to the attention of the Senate because, in the first place, while I do not favor his conclusions as to subsidies and am not in favor of direct

subsidies, and never have been, yet I believe he is correct in the claim that unless we change or modify the existing law under which the practices which he mentioned have been indulged in, we will be obliged eventually to repeal the present law, because the country will not stand for the kind of dealing which is pictured in the document.

We can not afford to indorse the discriminations, the terrible expense, the piling up of expenditures, and so forth, in connection with the transactions which are set forth. Ultimately we must repeal that law, or modify, or change it in some way so as to correct the outrageous conditions that are set forth in the document. We ought not to endure it ourselves and the country itself would be shocked, I am sure, if it understood just what has been taking place. I protested against giving away the ships. I maintained that it was an effort to get the Government away from private enterprise entirely, and from shipping operations or ship construction or anything of that sort, and to get the whole thing into private hands. In doing this the Shipping Board and the administration, I might say, generally have emphasized the provision made in the first section of the act of 1920, that the purpose ultimately would be to have the ships pass to private hands, instead of the provision of it that the purpose was to establish and maintain an adequate American merchant marine. That was the object, the primary object of Congress in all we have done. It was not the purpose to get the ships out of the Government and into private hands, and make their operation a matter entirely a private enterprise primarily, and regardless of all consequences. That is a secondary consideration. But the administration and the Shipping Board, it seems, since 1920, or at least very soon after that time, have set about disposing of the ships, apparently determined to get rid of them, because they sold some of the ships to the Dollar Line and other lines at about 10 per cent of what they originally cost. I protested that sale; I protested against that policy; and now comes this document which gives more details and more information on the subject which I think every Senator ought to consider very seriously with the view, not so much perhaps of preventing the carrying out of contracts already made or failing to provide for the carrying out of those contracts, but to have the making of contracts of that kind cease and to provide a different plan for taking care of the American merchant marine than that which has been pursued under the act of 1928.

The act of 1928, however, it will be borne in mind, provides for pay on a mileage basis for carrying the mails, so much for a certain type of ships, so much for another certain type of ships, and so on—seven different types as I recall—and provides that the rates shall not exceed the rates named in the act, leaving it to the Postmaster General and the Shipping Board to determine, first, what was in the mind of Congress, which was that this aid to American ships engaged in foreign trade should be comparable to the difference between the cost of operating ships under foreign flags and the cost under our flag, and taking into consideration that the cost of building ships in American yards is considerably greater than if built in foreign yards. It was to neutralize that handicap that the aid was intended for American shipping.

But they have let contracts without any regard to taking care of that handicap to American ships. They have let the contracts for the very highest rates provided in the law. They have simply accepted the maximum rates for all the contracts. When we said they should not exceed, for instance, \$1.50, they have always made the rate \$1.50, and so on through.

I think it has been largely a question of administration thus far. The administration is making it very costly. In the first place, they sell the ships at a tremendous sacrifice. There is an aid at once in the very beginning to the ship buyer. In the next place, they give the ocean mail contracts at the maximum rates without investigating or considering whether the rates would not be reasonable at less than those named in the act as maximum rates. In that way it has proven a very expensive proposition for the Government. We must some time, and as soon as possible, enact a law which will set forth the purpose of Congress in the act, so that there can not be transactions of this kind always at the expense of the Government.

Mr. McKELLAR. Mr. President—

The PRESIDING OFFICER. Does the Senator from Florida yield to the Senator from Tennessee?

Mr. FLETCHER. I do.

Mr. McKELLAR. In addition to the benefits enumerated by the Senator from Florida, there is another benefit that is almost if not quite as great, and that is the Government furnishes the money with which to build new ships at a very small rate of interest—something like $1\frac{1}{8}$ per cent.

Mr. FLETCHER. Precisely; and that is one of the things we are going to try to correct very shortly. It is undoubtedly true that we have done a great deal in the law; we have gone the limit in assisting the American shipping interests; and in the administration of the law we have gone, I think, far beyond what was contemplated.

Mr. President, I do not know exactly what the Senator from Utah had inserted in the RECORD from this document, and I do not care to duplicate what he may have inserted, but I should like to have printed in the RECORD Title V, Vessels Subsidized Twice, which is found on page 25 of the print I have, the language of which is the same as that in the official document. (Page 11 of S. Doc. 210.)

The PRESIDING OFFICER. Without objection, it is so ordered.

The matter referred to is as follows:

V. VESSELS SUBSIDIZED TWICE

A DOUBLE SUBSIDY IS RECEIVED BY THOSE LINES WHICH WERE PURCHASED FROM THE BOARD, AND THEN AWARDED A "POSTAL CONTRACT"

Certain favored lines not only enjoy a subsidy under the new law, which, in some instances, is itself excessive and unjustified, even if the only subsidy granted the vessels, but an earlier subsidy is also enjoyed by the lines purchased from the board. This double subsidy results as follows:

The sales prices of the lines sold were on a level far below their normal, conservative market value; this concession having been made solely as a subsidy, to promote the use of the vessels in foreign trade; the difference in price offsetting their handicap, as American vessels, when in competition with foreign vessels, and the concession was regarded as adequate for that purpose. However, when the subsidizing postal contracts were awarded the vessels became the beneficiaries of two separate subsidies.

The present law, if treated as a subsidy, must have regarded the maximum rates named in it as ample, if not more than ample, to cover the handicap involved; otherwise, as a subsidy, the plan would have been abortive. When such "contracts" were awarded lines previously sold by the board the "compensation" or subsidy granted should have been coordinated with the value of the earlier subsidy granted in the form of the low sales price, so that the sum of the two would at most not have exceeded the maximum rate named in the law. There was no such coordination. In awarding the second subsidy the maximum rates were awarded precisely as if the contractor was burdened with the capital charge of brand-new vessels.

In such cases, therefore, the Government, in large measure, has paid and is continuing to pay the same bill twice. This is true of practically all subsidies awarded to purchasers of lines from the board; the extent of such concessions varied somewhat, depending on the trade route involved and the competition between bidders for the purchase of the line. An illustration of the extent of the concession is reflected in the sale to and the "postal contract" with

THE MUNSON STEAMSHIP LINE

We will first present facts relating to the postal contract, and then data relating to the purchase price of the line in the sale to it by the United States Shipping Board.

SUBSIDY IN THE POSTAL CONTRACT

The contract awarded this company, dated July 13, 1928, is for 10 years and provides for 26 voyages on the route from New York to Buenos Aires, Argentine Republic, with stops at Rio de Janeiro, Brazil, and Montevideo, Uruguay. The service required by the contract is substantially the same as that maintained by the company when the contract was awarded and which it has "guaranteed" to maintain in return for the low sales price of the vessels.

The "compensation" under the postal contract exceeds \$1,300,000 annually, and will therefore exceed in the aggregate \$13,000,000. In return for this great subsidy, the Munsons are not obligated to increase the American merchant marine by building even one new vessel; nor is it required even to replace its present vessels, by which the service is performed. The contract will therefore result in a net loss to our merchant marine—not merely in money but in ships.

When this contract was made the four vessels involved were substantial assets to the American merchant marine—commercially as potential naval auxiliaries; they then had 12 more of the usual 20 years allotted for efficient service by a vessel.

Provision should, of course, have been made for their replacement, at least, during the term of the contract. However, even had this been required, the subsidy would still have been very excessive.

Not only will the net loss result from the age of the vessels, even if current repairs are faithfully made, but long before then they will probably have become obsolete for competition in foreign trade, so rapid has been the movement in recent years for new types of vessels, both in speed, capacity, and general efficiency, especially in the development of Diesel engines.

The explanation given a committee of Congress (see "Hearing," H. R. 8715, p. 97) by the chairman of the Shipping Board for the omission of new vessel requirements from this contract is as follows:

"We did not require it * * * because they were practically new boats, and you could build in the next 10 years just as well as now."

This explanation is not convincing. The point is: Not only is the subsidy excessive even had new construction been required, but that at no time, either now or "in the next 10 years" or at any other time, are the Munsons required to build new vessels in return for the multimillions to be received from the Federal Treasury.

If the construction of new vessels had been required, with the privilege to the contractor of building them any time during the life of the contract, and the question had been why they were not required to be built at once, the chairman's "explanation" would be relevant, viz, that they were not required at once, and therefore "you could build in the next 10 years just as well as now."

In the same paragraph containing this "explanation," the chairman had made it clear to the committee that the contract had no requirement whatever

"for replacements or new construction"; hence there was no confusion of facts. The relevancy of the comment quoted is not apparent, notwithstanding it was made with a finality as if it should silence all criticism of the failure to require new vessels. We are reluctant to assume that the comment was intended to persuade the committee that although the beneficiary of the Government was not required to build, the physical fact remained the vessels could be built—by somebody.

This possible interpretation would not be mentioned, but for the fact that many of the contracts reflect such an attitude. There has been unjustified zeal to give the favored lines the maximum possible under the law and to require only a minimum of return either in services, new construction, or otherwise.

Mr. FLETCHER. I next desire to have inserted the matter under the headline Subsidy in the Sales Price, which is found in this document (S. Doc. 210) on page 13 down to the top of page 14.

There being no objection, the matter was ordered to be printed in the Record, as follows (p. 13, S. Doc. 210):

SUBSIDY IN THE SALES PRICE

The Munson Steamship Line, known also as the Pan America, purchased these vessels from the Shipping Board in November, 1925. The vessels were built in 1921-22.

The prices at which sold to Munson, and their respective costs of construction, were as follows:

Name of vessel	Purchase price	Cost to build
S. S. Pan America.....	\$1,026,000	\$5,682,174
S. S. Western World.....	1,026,000	4,983,161
S. S. American Legion.....	1,026,000	7,160,088
S. S. Southern Cross.....	1,026,000	7,163,632
Total.....	4,104,000	24,989,055

As the vessels were built by the United States, the above statements of their cost does not include any interest accumulating during their construction, although such interest is a well-recognized factor in computing the cost of a vessel. But even with interest ignored we find the cost of these vessels to have been substantially \$25,000,000.

The total purchase price for the four vessels was only \$4,104,000. The sales price, or, rather, the price at which the vessels were sold to Munson, was thus more than \$20,000,000 less than their cost; that is, it was only about one-sixth of their cost.

The cost of construction is not a final test of their market value in 1925. There must be deducted the usual annual allowance (5 per cent) for depreciation, but this would not exceed, say, \$5,000,000 for the whole time to date of sale. These vessels are high-grade, combined passenger and cargo steamships, each of 13,700 tons, gross, with speed of 16½ knots. With liberal concessions for depreciation in market value, the sales price was not nearly one-half of their normal market value.

The price concession therefore, made solely to enable the buyer to operate the vessels in foreign trade, substantially exceeded \$1,000,000 per vessel, or a total sales-price subsidy exceeding \$4,000,000. If the same ratio is applied to these vessels which is applied in the contract of sale to the vessels of the Export Steamship Co., the sales-price subsidy in the Munson sales will exceed \$8,000,000.

Mr. FLETCHER. The next extract from this document I desire printed in the Record begins on page 33, under the headline "List of Sales Price Concessions," and goes down to the bottom of page 35.

There being no objection, the matter was ordered to be printed in the Record, as follows (p. 15, S. Doc. 210):

LIST OF SALES-PRICE CONCESSIONS

Subject to the same general comment elsewhere submitted (p. 56) concerning the relation of sales price to cost of construction, the following list, relating to lines sold by the board since January 1, 1925, shows the sales price and the cost to the United States of building the vessels:

1. Admiral Oriental Line (year of sale, 1926): Number of vessels, 5; total sales price, \$4,500,000; cost to build, \$31,939,000; cost exceeded sales price by \$27,439,000.

2. American Scantic Line (year of sale, 1927): Number of vessels, 10; total sales price, \$572,670; cost to build, \$16,960,000; cost exceeded sales price by \$16,387,330.

3. American South African Line (year of sale, 1926): Number of vessels, 5; total sales price, \$777,900; cost to build, \$9,297,000; cost exceeded sales price by \$8,519,100.

4. American West African Line (year of sale, 1928): Number of vessels, 10; total sales price, \$2,261,240; cost to build, \$18,123,000; cost exceeded sales price by \$15,861,760.

5. Dollar Steamship Line (year sold, 1925): Number of vessels, 5; total sales price, \$5,625,000; cost to build, \$32,478,000; cost exceeded sales price by \$26,853,000.

6. Export Steamship Corporation (year sold, 1925): Number of vessels, 23; total sales price, \$1,299,000; cost to build, \$42,105,000; cost exceeded sales price by \$40,806,000.

7. Munson Steamship Co. (year sold, 1925): Number of vessels, 4; total sales price, \$4,104,000; cost to build, \$24,989,000; cost exceeded sales price by \$20,885,000.

8. Oceanic & Oriental Navigation Co. (year sold, 1928): Number of vessels, 21; total sales price, \$1,981,700; cost to build, \$40,311,000; cost exceeded sales price by \$38,330,128.

9. Pacific Argentine Brazil Line (year sold, 1929): Number of vessels, 8; total sales price, \$396,285; cost to build, \$15,084,000; cost exceeded sales price by \$14,687,715.

10. States Steamship Co. (year sold, 1928): Number of vessels, 13; total sales price, \$1,199,400; cost to build, \$27,490,000; cost exceeded sales price by \$26,290,600.

The 10 subsidized lines enumerated above represent 104 vessels sold. The total sales price for these vessels was less than \$23,000,000. The total cost of construction for the 104 vessels was \$258,000,000. Their cost of construction, therefore, exceeded the total sales price by more than \$225,000,000. In other words, the sales price in the aggregate was not 10 per cent of this cost of construction.

Mr. FLETCHER. These items will be very instructive, I am sure, and I have no reason, as I have stated, to question the facts upon which they are based.

Next, I should like to have printed, beginning on page 60 of the print I have, the matter under the heading "The present law is defective." I think it is important to put that in because that is one thing we must look after. Undoubtedly there are some defects in the present law which ought to be corrected.

There being no objection, the matter referred to was ordered to be printed in the Record, as follows (p. 27, S. Doc. 210):

IX. THE PRESENT LAW IS DEFECTIVE

RESPONSIBILITY FOR THE KIND OF "CONTRACTS" MADE IS CHARGEABLE EITHER TO THE TEXT OF THE LAW OR TO ADMINISTRATIVE OFFICIALS—WHICH?

Responsibility for the contracts which have been made is primarily with the administration of the law, for the text contains no mandate that a single contract be made under it. As the making of each of the contracts was wholly discretionary with the Postmaster General, the amount of compensation was under his control, for the contract need not have been made if the bidder

would not accept the amount tendered. The fact that there was an advertisement inviting bids; that a bid was tendered; that it was an only bid and at the maximum rate imposed no obligation, legal or moral, to accept the bid nor to award a contract. These transactions, furthermore, were not demanded by the requirements of the Post Office Department.

As between the text of the law and the officials who administered it, viz, the Post Office Department and the Shipping Board, the responsibility for the grave and costly errors which have been committed is that of the officials.

However, as between the text of the law and the rights of the people and of the Federal Treasury, the law is responsible unless certain contracts are voidable, as in violation of the law, because of their terms and because of the circumstances under which they were awarded. The fact is, the law contains ambiguities and contradictions which may explain, though not justifying, some of the awards made. The following are illustrations:

First. An elaborate classification of vessels is laid down in section 408 (a), under which the compensation is presumptively controlled by two factors, viz, the size and the speed of the vessels involved. This having been done, it is then promptly nullified by paragraph (b) of the same section, which provides the rates named can be paid vessels having the speed named, irrespective of size! As a result, a contract has been made (New York & Porto Rico Steamship Co.) for a service between Porto Rico and San Domingo (only 222 miles) in performing which a comparatively small motor boat can be used—yet the compensation is \$4 per mile for a 13-knot boat, irrespective of size, whereas the classification as first stated would have required an 8,000-ton vessel!

The quantity of the mail can be readily handled in the smaller motor boat, with a very small crew, and yet over \$800 per trip for 52 trips annually has been promised for a service which can be rendered by a motor boat between sunrise and sunset!

Second. It is required by section 405 that plans and specifications of new vessels shall be approved by the Secretary of the Navy, in accord with the much-published fact that subsidies are justified in proper cases, because the vessels will be of value in our national defense. And yet the requirement that the plans, etc., shall be approved by the Secretary of the Navy are nullified by clause (2) of the paragraph, which makes acceptable, without the Secretary's approval, every vessel "which will be otherwise useful to the United States." This qualifies for the ocean mail service every vessel complying with the specification, having commercial value, though having no value as a "naval auxiliary," for they would be "otherwise useful," as commercial vessels.

Third. More serious in their possibilities than these are the provisions of paragraph (e) of section 409, authorizing the Postmaster General to "allow additional compensation in amounts to be determined by him" if airplanes are "used in conjunction with vessels."

Thus far the maximum rates granted have been limited to the rates printed in the law, and these rates are the maximum if airplanes are not used "in conjunction with the vessel." But if airplanes are thus used it may be claimed that there is no limit whatever on the Postmaster General's discretion; that he is not limited to the extra expense of the airplane service only; and that he could allot \$20 per nautical mile for a vessel otherwise limited to \$10 per mile.

Presumptively, the law has reference to a vessel physically equipped for planes to land on or depart from its decks, but the language used is not limited to that interpretation. An airplane dropping mail to the deck may be claimed as "used in conjunction with the vessel." If this interpretation should be applied (though we think it should not) would the contract be a legal obligation of the United States?

Fourth. The qualification of vessels to be used are given in section 405 of the law, the dominant requirement being that they shall be "American built and registered * * *" and the whole theory of a subsidy applies to American-built vessels only. Notwithstanding this fact item (3) of the first paragraph makes also acceptable vessels:

"* * * actually ordered and under construction for the accounts of citizens of the United States, prior to February 1, 1928, and registered under the laws of the United States during the entire time of such employment."

This clause was inserted in the bill chiefly at the instance of the Grace Steamship Co. because it was building two new vessels at the time, in a European shipyard, intended for its service between New York and the west coast of South America.

It is an interesting fact that at the very time this company placed orders for new vessels in a foreign yard, it was enjoying a subvention from the United States, under section 24 of the merchant marine act, 1920, this fact is emphasized elsewhere (p. 23).

Whether the exception should have been introduced solely to accommodate the foreign-built vessels of the Grace Line need not be further considered; we think it should not. Having qualified under the law, there was nothing in the law justifying the award of maximum rate for them.

In fixing maximum rates Congress did so on the basis of construction costs in American yards; and yet the Grace Line not only has the benefit of the lower construction costs in foreign yards, but enjoys the maximum rate applicable, if otherwise justified, only to the higher construction cost of American yards.

The 1928 act should not have qualified these vessels; having done so, however, the Postmaster General was under obligation to fix a lower maximum rate, to offset the fact they were built abroad.

Another aspect of the law subject to criticism, if this law is to be applied as a subsidy, is the fact that it expressly modified section 24 of the 1920 act and omitted, intentionally omitted, that clause which clearly made that section a ship subsidy by indicating that "postal contracts" under that section were not to be regarded as mere contracts of transportation; we refer to the following provision, which was omitted from the 1928 law: "The board and the Postmaster General, in aid of the development of a merchant marine adequate to provide for the maintenance and expansion of the foreign commerce, shall determine the compensation to be paid the vessel."

Now the deliberate omission of this clause clearly implied that computations under the 1928 act were not to be primarily "in aid of the development of a merchant marine."

The fact is, in planning and phrasing Title IV of this 1928 act, every sentence and word susceptible of criticism in debate that it was a subsidy, was carefully and intentionally avoided.

Mr. FLETCHER. From page 52 of Senate Document 210 I desire to have inserted in the Record all of section 409 of the act and what follows under the heading "Compensation Under Contracts," showing that the law itself provides that the rates shall not exceed those mentioned, and in every contract, so far as I am advised, the rate has been fixed at the maximum.

There being no objection, the matter referred to was ordered to be printed in the Record, as follows (p. 52, S. Doc. 210):

COMPENSATION UNDER CONTRACTS

SEC. 409. (a) The rate of compensation to be paid under this title for ocean-mail service shall be fixed in the contract. Such rate shall not exceed: For vessels of class 7, \$1.50 per nautical mile; for vessels of class 6, \$2.50 per nautical mile; for vessels of class 5, \$4 per nautical mile; for vessels of class 4, \$6 per nautical mile; for vessels of class 3, \$8 per nautical mile; for vessels of class 2, \$10 per nautical mile; and for vessels of class 1, \$12 per nautical mile. As used in this section the term "nautical mile" means 6,080 feet.

(b) When the Postmaster General is of opinion that the interests of the Postal Service will be served thereby, he may, in the case of a vessel of class 1 capable of maintaining a speed in excess of 24 knots at sea in ordinary weather, contract for the payment of compensation in excess of the maximum compensation authorized in subsection (a), but the compensation per nautical mile authorized by this subsection shall not be greater than an amount which bears the same ratio to \$12 as the speed which such vessel is capable of maintaining at sea in ordinary weather bears to 24 knots.

(c) The Postmaster General is of opinion that to expedite and maintain satisfactory service under a contract made under this title, airplanes or airships are required to be used in conjunction with vessels, he may allow addi-

tional compensation, in amounts to be determined by him, on account of the use of such airplanes or airships. Such airplanes or airships shall be American built and owned, officered, and manned by citizens of the United States.

(d) The Postmaster General shall determine the number of nautical miles by the shortest practicable route between the ports involved, and payment under any contract made under this title shall be made for such number of miles on each outward voyage regardless of the actual mileage traveled.

The PRESIDING OFFICER. The question is on agreeing to the conference report.

CHAPTER 2

POSTAL CONTRACTS

REMARKS OF HON. KENNETH McKELLAR, OF TENNESSEE, IN THE SENATE OF THE UNITED STATES, MONDAY, FEBRUARY 9 (LEGISLATIVE DAY OF MONDAY, JANUARY 26), 1931

A REPLY TO CRITICISMS OF "THE TRUTH ABOUT THE POSTAL CONTRACTS"

Mr. McKELLAR. Mr. President, some time ago there was a controversy in reference to the truth about the postal contracts. I have in my hand a reply to the criticism of this report, which was printed as a Senate document, made by Mr. John Nicolson. I ask unanimous consent that it may be printed in the Record.

There being no objection, the matter referred to was ordered to be printed in the Record, as follows:

REPLY TO CRITICISMS OF THE TRUTH ABOUT THE POSTAL CONTRACTS

This reply is to a communication published in the CONGRESSIONAL RECORD of January 23, 1931 (Appendix), from E. C. Plummer, Esq., vice chairman of the United States Shipping Board, attacking the accuracy and integrity of Senate Document No. 210 (71st Cong.) entitled "The Truth About the Postal Contracts."

I. AS TO ACCURACY OF DATA

The Senate document necessarily contains many items of figures, yet the only specific items in this mass of data whose accuracy is challenged are two facts which were mentioned only incidentally. One of these relates to the speed of the steamship *Mauretania*, an item too unimportant to justify discussion. The other relates to the amount of mail carried by the Export Steamship Co. on a stated number of voyages; and as we can accept the "corrected" figures without impairing the purpose for which the information was introduced, we do so without further discussion. We then have the substantive fact that the Export Steamship Co., for the 66 voyages to which the data relates, carried United States mail the transportation value of which, at the rate of the International Postal Union, was only \$17,630 (his figures), whereas the amount in fact paid it by the Government was \$820,000 for the same 66 voyages. And if we compare this actual payment with the transportation value at the subsidizing poundage rate paid by the United States to American vessels which have no "postal contract," we have \$40,299 (his figures) in contrast with the \$820,000 in fact paid. As a matter of fact, to the extent \$40,299 exceeds the \$17,630, it is a subsidy. The International Union rate is the proper test for transportation value, hence it was and is the correct basis of comparison to reveal the total amount of the subsidy paid.

II. AS TO INTEGRITY OF ITS STATEMENTS

The attack on the Senate document having signally failed in revealing errors of fact, the vice chairman then enters another field and attempts to destroy faith in the document by alleging inconsistency, etc., in its author; for instance: After imputing to the author knowledge "that in making these mail contracts there was no intention of having the amount of mail pay governed in any way by the amount of mail carried," he then adds: "In that section of the annual report of the United States Shipping Board for 1926, page 6, dealing with traffic, which section of the report Mr. Nicolson wrote, he used this language:

"* * * The policy is clearly outlined that the compensation is not to be measured exclusively by the transportation value of the service rendered, but by a broader test, including other factors and including the amount of compensation necessary to maintain the route as a service desired in aid of the development of a merchant marine adequate to provide for the maintenance and expansion of the foreign and coastwise trade of the United States and a satisfactory postal service in connection therewith."

This particular quotation, from the 1926 report, presents correctly the author's views based on the law as it then stood, in 1926. The vice chairman knows that the subquotation above (beginning "in aid of the development of a merchant marine," etc.) was a quotation from the law itself and that it was the vital factor of that law (sec. 24 merchant marine act, 1920); it clearly supported the statement made. He knows also that this provision of law was expressly repealed in 1928 and that the present postal contracts law (Title IV of the merchant marine act, 1928) contains nothing even resembling it, either in language or purpose. He knows that this omission of this language from the 1928 act is the subject of adverse comment in the Senate document (p. 1), in part as follows:

"Not a sentence of the text (Title IV, merchant marine act, 1928) reveals any intent to authorize ship subsidies. This fact is in marked contrast with the text of section 24 of the merchant marine act, 1920, which * * * expressly provided that such compensation should be an amount having in view * * * the development of a merchant marine adequate to provide for the maintenance and expansion of the foreign and coastwise trade of the United States."

And yet the communication presents as "inconsistent" views of the author given, respectively, under these widely different provisions of law.

III. "SOLELY AS SUBSIDIES"

The vice chairman criticizes the Senate document for stating, concerning certain contracts: "It is obvious they were awarded 'solely' as subsidies"; and he says: "If that misstatement was not intended to mislead, why was it made?"

The statement in the Senate document was made solely to reveal the truth, viz, that a law (Title IV, merchant marine act, 1928) whose every sentence was purposely pared of any suggestion that it was going to be applied by the Postmaster General as a ship subsidy had resulted in this group of amazing contracts. Why this protest? If contracts which give "compensation" 20 or more times the normal value of the transportation are not subsidies, what are they? Most officials would resent an imputation that they had been awarded other than as "subsidies" and would emphasize that they would not have been awarded except as a subsidy. But why these trifling distinctions in phrases, when so much is involved in the main question?

Mail transported a consideration: The vice chairman cites in justification of the contract to the Dollar's for the Admiral Line an amount, he states, was received by the line when still owned by the Government during 1924—four years before the contract. We decline to deal with this ancient and irrelevant fact.

If the relation between the services rendered and the compensation paid is the quest, would it not have been more to the point had he stated the amount of mails the vessels have carried since the postal contracts were awarded? The Senate document gives such information for a limited period for one of the lines criticized; it is: For 15 voyages the value of the transportation at normal postal union rates was about \$13,500; and the "compensation," in fact, paid was \$728,000; or, if we use the poundage rate paid American vessels, the value of the transportation was less than \$40,000. So we still

have an interesting contrast between, say, \$40,000 earned and \$728,000 paid! Always remembering also that the contract under which this huge compensation is paid—compensation exceeding in the aggregate \$14,700,000—does not require the building of even one new vessel. And yet the vice chairman arraigns the author for having referred to it as a subsidy contract; and, casually, as “solely” a subsidy contract—as if it made any difference to the main question involved.

The imputation that the Senate document withheld any important relevant fact is untrue; it expressly mentions that mail was carried in return for the subsidy and (p. 36) having given, for a limited time, both the transportation value and the amount, in fact, paid, adds:

“The difference is the extent the contract compensation exceeds the commercial value of the service as a mere item of transportation”; i. e., the difference is the subsidy.

IV. ATTITUDE OF SENATORS FRYE AND HALE

The vice chairman mentions the honored name of Senator Frye, of Maine, and his relation to the ocean mail act, 1891. The present law is framed largely upon the 1891 act, and the debates on that bill are peppered by references to it, even by its friends, as a “subsidy.” Senator Frye himself referred to it as “the ship subsidy bill.” Title IV of the 1928 act has the general framework of the 1891 act, and the attitude of Senator Frye to the earlier act is therefore of great value even now; this is what he said about the 1891 act when it came on for passage:

“Senator FRYE. * * * If you do pass a postal subsidy bill, you can not help your merchant marine * * * you fail in your other proposition utterly and entirely to do anything for anybody except the few lines that get from the Postmaster General contracts to carry the United States mails.”

So deep was Senator Frye's conviction that that law would prove abortive—as it did—he voted against its enactment; not because of the difference between \$6 per mile or \$4 per mile for 20-knot ships; nor can we find any reference in the debates to the reductions of the rate. He voted against it because he believed it to be wrong in principle as the basic aid for our merchant marine.

In this attitude he was supported by Senator Hale, of Maine, another stalwart friend of the merchant marine, who said, in voting against the measure:

“Senator HALE. A long contest has been made, and faithfully made, to build up the American merchant marine generally, not to confine the benefits of any measure to a few large vessels or to a few large concerns that own large ships.”

He favored broader legislation and a conference, “in the hope that out of a conference * * * something may be done for the benefit of the great commercial marine of the United States, unconfined to a few ships or to a few large concerns.”

V. SALES PRICES AS SUBSIDIES

The vice chairman comments at length on the ship-sales policy of the board and the price concessions reported in the Senate document (p. 15). He describes the price concessions as “subsidies,” thus concurring at least in the title of Chapter V of the Senate document (p. 11), *Vessels Subsidized Twice*. It is not our purpose to deal with these, except as they have immediate bearing on the postal contracts. The sales policy of the board is not covered by the Senate document. The reference to it was only incidental to point out that there had been an earlier subsidy—a fact now conceded. It is obvious that as the maximum rates in the postal law related to normal costs and even to normal cost of new construction in American shipyards, then vessels which had been purchased for nominal prices obviously should not receive the maximum rates named in the law. This proposition seems at least logical. Indeed, it seems axiomatic, but it was ignored in many cases; for example, the Export Steamship Co.

Vessels sold inferior to competing vessels: In these comments on ship sales, the vice chairman says:

“It was known, of course, that our freighters * * * could not long compete with those new foreign ships which immediately after the close of the World War foreign nations began to build * * * but it was hoped to con-

tinue these American services, so essential to the development and production of American commerce, until Congress did give the necessary aid."

Well, in 1928 "Congress did give the necessary aid." The fleet of the Export Steamship Co. was made up entirely of vessels sold it by the board, vessels which "it was known * * * could not long compete with those new foreign ships which immediately after the close of the World War foreign nations began to build." And yet the vice chairman recommended and urged the postal contract to these old vessels, without any requirement whatever for their replacement with new tonnage capable of meeting the new competition. And he recommended the maximum rate, notwithstanding they had been purchased far below their market value, as mentioned above.

Whether Government aid needed.—The vice chairman also makes the following comment:

"Stating that these lines had been purchased without mail pay and thus implying that therefore they needed no mail contracts to make possible their continued operation, ignores the fact, well known to Mr. Nicolson, that the aid coming from reduced sales prices was expected to be entirely consumed in five years—the period of guarantee operation. Therefore that statement could have no other effect than to mislead those who were necessarily unfamiliar with all the many details of these problems."

"That statement." What statement? The vice chairman creates the statement by alleging the Senate document contains something which implies that because a line has been sold with a large price concession, therefore Government aid to assure permanent operation is unnecessary. The Senate document contains no statement justifying such an implication; on the contrary, the Senate document, page 2, says:

"If the policy of subsidizing our merchant marine in foreign trade is to be given permanent effect (and we think it should), then it should be done on a clearly defined plan * * * of direct financial aid by the Government, clearly phrased to that end, on a basis making its benefits equally available to all citizens meeting its requirements. There should be no favoritism whatever."

These are the general principles which characterized the bill Senators Frye and Hale wanted enacted into law in 1891, and for which they refused to accept the postal-subsidy bill as a substitute!

VI. MODERN VESSELS IN COMPETITION

The vice chairman dwells on the progress in type, etc., of foreign-trade shipping, and says:

"Mr. Nicolson ought to have known, and if he did not, he never should have attempted to comment on these mail contracts, that the advent of the Diesel engine has caused such a development in the efficiency of steam propulsion that the machinery of any steamer built 10 or more years ago is to-day obsolete."

As written records exist to eliminate possible misunderstanding, the way is clear to say that the vice chairman, as commissioner in charge of such matters, ignored, over the writer's protest, these very facts in many contracts he recommended. The greatest concession obtained in this field by the writer was in the first certification made under the new act, and that concession was one of mere phraseology rather than one of substance.

The vice chairman, however, knew from the Senate document itself what the author's attitude was on this point. That document says (p. 12), with immediate reference to vessels of the Munson Line, but of general application:

"Provision of course should have been made for their replacement. * * * Not only will the net loss (to our merchant marine) result from the age of the vessels, even if current repairs are faithfully made, but long before then they will probably have become obsolete for competition in foreign trade, so rapid has been the movement in recent years for new types of vessels both in speed, capacity, and general efficiency, especially in the development of Diesel engines."

In the light of the fact thus emphasized and therefore conceded by the vice chairman, how can such contracts as those with the Munson Line and the Export Steamship Co. be justified? In trying to justify the Munson contract the vice chairman says:

"The steam plant on any vessel built recently has an efficiency twice as great as the steam plant" in the Munson vessels.

Why then was not the Munson Line, in return for the \$13,000,000 to be paid it in subsidies, required to build proper new vessels?

VII. A QUESTION OF RESPONSIBILITY

Another form of imputation having in view weakening faith in the Senate document is the vice chairman's attempt to transfer to the author responsibility for an alleged "recommendation" concerning the Munson Line and appearing in the 1925 annual report of the board, which he quotes. Responsibility for it is denied by the author.

The right to suggest to the board proposed rates of compensation was one the vice chairman, as the commissioner in charge of that bureau, naturally reserved to himself and insistently applied. The extract quoted in fact contains no recommendation; it is a mere preliminary statement. No recommendation was made until February, 1926, nearly eight months after the date of the annual report.

As illustrating his insistence on himself naming proposed rates of compensation we cite a case of an actual recommendation; one in which there is a written record of the preliminary facts. We refer to the contract granted the Grace Line in 1926. The author, then director of the bureau, informed the commissioner that the company's own statements revealed they were earning dividends. He nevertheless directed \$3 per mile as the rate to be recommended, the maximum of any rate ever granted under section 24 of the merchant marine act. The director protested the amount was excessive, but his attitude remained unchanged until some time later, when he put it at \$2.25, an amount which was also excessive, in the light of the fact that the company was earning dividends without any subsidizing contract.

The eleventh annual report of the board mentions this contract having been made and the rate. It, of course, does not mention this preliminary episode. On the theory of the vice chairman, however, because the director prepared the text of the report or of a final communication, he is responsible for the things reported, even though done under instruction and under protest. The proposition is, of course, without merit. Nevertheless the vice chairman writes:

"In that section which Mr. Nicolson prepared for the Annual Report of the Shipping Board in 1925 (p. 24), he says (then follows the extract about the Munson Line, and the vice chairman continues): 'It will be noted that here Mr. Nicolson makes no reference whatever to the amount of mail carried * * *'"

Of course not. It was in 1925, and under the law (sec. 24) which authorized contracts "in aid of the development of a merchant marine * * *" (already herein quoted). He then comments further:

"* * * Nor does he mention the fact that this million-dollar compensation recommended was based on the prosperous conditions of 1925. * * * If this thesis (meaning the Senate document) was designed to be informative, why were not some of these most important facts mentioned? * * * Yet, ignoring * * * what he wrote in 1925 Mr. Nicolson now says that increasing the mail pay of this line \$200,000 over the figure he had named makes reference to it as amazing * * *, etc."

The statement that Mr. Nicolson recommended a million-dollar rate in the Munson case is untrue.

The fact is the amount recommended, even by the board, instead of being \$1,000,000 per annum, was \$3 per mile or, as stated in the Senate document (p. 33), \$490,000 annually; whereas the amount payable under the 1928 contract is \$1,300,000 per annum. The present annual payments thus exceed the "amount recommended" under the old law not by a mere \$200,000 but by \$810,000 annually. That line's total "compensation" under the contract will exceed \$13,000,000, and it can not be required to build a single new vessel, not even in replacement of present vessels.

VIII. THE NUMBER OF NEW VESSELS

Concerning the number of new vessels built or building under these contracts, the vice chairman says:

"* * * The records show that, instead of only 12 new vessels, which appeared to be all Mr. Nicolson could discover as the result of those 'amazing subsidies' granted, American steamship companies now receiving mail pay already have built or now are building in American shipyards 39 vessels * * *."

In other words, the reader is intended to believe that the Senate document should have said 39 instead of 12, and the alleged discrepancy is cited to break down faith in the Senate document.

The statement that 39 vessels have been built or now are building as the result of the contracts criticized is very gravely inaccurate; such is not the case. The statement in the Senate document is correct. The inaccuracy of the vice chairman's statement will be demonstrated should the matter be examined into by a committee; very little progress can be made through mere *ex parte* statements, without evidence, or without opportunity to examine and explain evidence.

The vice chairman will doubtless claim his figures (39 vessels) speak as of the date of his communication—January, 1931. Even on this basis the denial above still stands. The Senate document, however, not only in fact speaks as of March, 1930, but prominent on its cover the reader is cautioned: "The data herein contained is of date March, 1930."

So the vice chairman would "prove" the independability of data based on facts as they existed March, 1930, by its conflict with statements he makes, based on alleged facts as they existed in January, 1931—10 months later—and then comments that the 12 mentioned in the Senate document "appeared to be all Mr. Nicolson could discover"; with the implication that he should have discovered a lot more. Such criticisms are unjust. The statement in the Senate document is correct.

IX. THE OCEANIC & ORIENTAL NAVIGATION CO.

A more palpably unfair criticism is the vice chairman's challenge of the Senate document in its references to the postal contract given the Oceanic & Oriental Navigation Co. He quotes the comment made in Senate document (p. 18) that the board recommended a subsidy of \$2.50 per mile (the maximum rate for the steamers involved) whereas the report of its own experts showed that for a 3-year period the line could be operated at a profit, even though it had no subsidy. The Senate document refers specifically to the expert's report.

In an attempt to impair faith in the Senate document, the vice chairman says, of its author:

"Now, why does he rip these figures from their explanatory context and * * * omit those conclusions revealed by that same board of experts found on the same page with his (the author's) extracted 'profit' figures, viz, * * * 'It would appear under any circumstances that the surplus shown on the attached statement would be insufficient for replacements of any kind * * *'"

There is no conflict between this statement of the experts and the statement attributed to them in the Senate document. Let us see who has done the ripping: "The surplus shown on the attached statement," is a definite sum of money, revealed in the Senate document (p. 18) to be \$230,000. Of course, \$230,000 as an abstract, isolated sum of money, "would be insufficient for replacements of any kind." The significance of that surplus was not its amount (\$230,000), but the fact that it would remain, after paying all expenses and after deducting not only "annual depreciation" but also interest on dividend. That amount would be the product of three years' operation, and three years only. Does the vice chairman claim the surplus from three years' operations should be sufficient to amortize the investment or to build new vessels in replacement? The shipping world deems a line "prosperous" if, in addition to paying all expenses, including insurance and a fair interest or dividend on the investment, there still remains enough from earnings through 20 years' operations to amortize the original investment; or, if he desires to continue, to invest it in a new vessel.

The vice chairman knows that in vessel accounting this amortizing fund is created by an annual deduction named "depreciation" (usually 5 per cent), and this deduction represents "replacement." The 5 per cent applied for 20 years, produces, of course, 100 per cent of the original investment.

The vice chairman is experienced in merchant-shipping matters; he knows these underlying facts. He also knows that the report of the experts shows not only that they deducted this "depreciation" item in their computation, but they were generous to the operating account and deducted 10 per cent instead of the customary 5 per cent!

SHOULD SUBSIDY YIELD LARGER VESSELS?

But, regardless of the experts' report, it is a fact that the attitude of the vice chairman has been demonstrable from the contracts themselves, not only that the subsidy should assure a surplus equal to the investment in the subsidized vessels at the time the subsidy commences but a far greater amount, namely, enough to replace the original fleet with larger and faster vessels, ignoring entirely that, to the extent such new vessels exceeded the value of the original vessels, they should represent new capital investment; the making of the additional investment of private capital being encouraged by an entirely new subsidy to and commensurate with the larger and finer vessels.

The attitude of the vice chairman apparently is in principle that a subsidy to a 10,000-ton, 10-knot vessel for 10 years may be made large enough to assure a surplus equal to the cost of a 20,000-ton 20-knot vessel, and need not be limited to assuring the return of the investment in the smaller vessel. The proposition can not be sustained; it is dealt with in the Senate document (p. 20); yet it is on this basis the recommendation for the Oceanic & Oriental Navigation Co. contract is "justified."

The new vessels not definitely required to be built: We have said "equal the cost of," just above, advisedly, for the proposition is not that the subsidy should be required to apply the gold thus given him to that use; not at all! Let it be given to him anyhow, so that if he happens to feel like building such a vessel he will have some surplus cash with which to do it—received from the Treasury of the United States. But if he does not want to build the new vessel, why, let him keep the money anyhow! It is on this basis, apparently, the recommendation for the Munson Line contract is "justified"!

X. NEW VESSELS VOLUNTARILY BUILT

The vice chairman states concerning new vessels built voluntarily, though not required to be built by the contract:

"While emphasizing the fact that the recipient of the mail bounty (he refers to the Oceanic & Oriental Navigation Co.) were not bound to build any new ships under their contract, he (the author) knew that the owners of these lines * * * (were actually building) * * * three magnificent ships. * * * Why does he leave the impression that no such facts exist?"

One reason is that "no such facts" in fact exist. Another reason is that if they did exist they would be wholly irrelevant.

As to the first reason: The vice chairman properly uses the words "these lines," for while there is but one company (the Oceanic & Oriental Navigation Co.) there are two lines, and two contracts (S. Doc., p. 17). The vice chairman's phraseology gives the reader but one impression, viz. That whereas the Senate document (p. 18) reveals that the Oceanic & Oriental Navigation Co. will receive \$3 800,000 under these two contracts, and that not one new vessel is required to be built by either of them, that the author nevertheless "knew" that company was in fact building three "magnificent ships"; and then asks: "Why does he leave the impression that no such facts exist?" If he does not refer to the Oceanic & Oriental Navigation Co., whom does he reveal to the reader is building the vessels mentioned? No other person or company appears in the offing of his comment, to whom the comment could refer. It is sufficient to repeat that he is mistaken. He evidently had this company confused with some other company and some other mail contract.

Now, as to the second reason: Had it been true this contractor was in fact building such vessels, while the author might have mentioned it, incidentally, as he did in the case of the Export Steamship Co. (p. 26), nevertheless it is irrelevant, and he could very properly have ignored the fact. It would have been irrelevant because the purpose of the Senate document is to demonstrate that administrative agents charged with the protection of the Government's interests had made certain contracts, certainly unjustified by the facts, and possibly unjustified by law.

What a contractor may do voluntarily, after receiving the award, has no bearing on the question whether the contract had been properly made. Benefits which the Government should receive in return for vast payments promised should not be dependent on the pleasure or even the patriotism of the contractor; it is the duty of the Government's representatives to see that such

benefits may be demanded, as of right. It would have seemed this is axiomatic, had not the distinguished vice chairman indicated that it is an unjustified criticism of the contract—if the citizen happens to voluntarily pay the benefits anyhow. And the vice chairman champions such contracts even when the contractor is not voluntarily paying the benefits anyhow—as with the Munson Line!

NEW CONSTRUCTION BY ANOTHER LINE

The argument of the vice chairman that voluntary compliance justifies the contract, though compliance by the contractor could not be demanded, is extended by him one step further. It is a fact that the Robert Dollar group are building two vessels—two fine, large vessels. He mentions this fact as in justification of those two contracts awarded the Dollars, which are the subject of the Senate document's criticism (p. 29). As a matter of fact, the building of neither of these two vessels has anything to do with either of the contracts criticized. They are being built under and for the route covered by a third and entirely different contract, and that contract requires their construction.

The Senate document (p. 29) points out that the two contracts it criticizes provide for payments aggregating \$27,000,000, and yet neither of them provides for the building of a single new vessel. Then the vice chairman says: "But they are building two vessels anyhow," and thus tries to bring them within his doctrine of voluntary compliance. He does not mention the fact of the third contract, and that the building of them is pursuant to its requirements, nor does he mention that this third contract provides for the payment of many, many more millions in subsidies in addition to and apart from the \$27,000,000 payable under the two contracts criticized. It is in partial return for the additional \$14,000,000 or more they will receive under this third contract that the two new vessels are building.

The failure of the vice chairman to note this distinction is the more surprising because he knows that the loan agreement under which the Dollars are borrowing three-quarters of the cost of these vessels from the Government expressly provides they shall be operated in the round-the-world service, the route to which this third contract relates.

He places at \$9,000,000 the construction handicap these vessels will have to bear in foreign trade. This, of course, is an incident of the third contract and of the \$14,000,000 payable under it. Remaining silent as to the \$14,000,000 subsidy, he charges this \$9,000,000 against the \$27,000,000, hoping thereby to reduce the enormity presented by the two contracts criticized in the Senate document. Should a consolidated statement be made for the burdens of the lines, under all three contracts, it is obvious the comparison of these burdens should be with the subsidies receivable under all three contracts, and the \$9,000,000 would then be contrasted with \$41,000,000 receivable. It is a conservative prophecy that if these contracts remain in force for the 10-year period they will receive from the Government subsidies aggregating nearly \$50,000,000.

XI. IN CONCLUSION

Although this reply is but a fraction only in length of the vice chairman's communication, it is our purpose, in justice to those whom we hope will read it, to bring it to a close. Many points will therefore be left unanswered, except as the spirit and method of the whole communication has been revealed in this reply. The comments made on the author's connection with the postal contract awarded the line from Savannah (the South Atlantic Steamship Co.) will be answered in a separate document.

We wish, however, to supplement our reply above (Caption VII) to the vice chairman's attempt to impute to the author responsibility for the \$1,000,000 being mentioned in the 1926 annual report for the proposed contract to the Munson Line under the 1920 act. The author's denial of responsibility for that amount could not be more definite than already made. He would be reluctant to simply reply and say that it was the vice chairman himself who named that amount, if documentary evidence was not available in the files of the Shipping Board to prove it; and it is known to the author that the vice chairman urged General Lord to recommend a postal contract appropriation, mentioning this \$1,000,000 item in that connection, and now seeks to fasten it on the author. As stated, documentary proof over the vice chairman's signature is in existence on this point.

As the last several paragraphs of the vice chairman's communication are in humorous vein, they will require no answer, except to remind the reader that his quotation from Lincoln is paralleled by another comment of that great man concerning the ultimate capacity of the people to protect themselves, a fact which, in part, prompted the statement in the Senate Document No. 210 (p. 5) that the criticisms it makes are—

"* * * Constructive criticisms, prompted by the belief that unless the present law is radically changed it will be repealed under circumstances which will make revival of Government aid to merchant shipping very difficult for many years to come."

JOHN NICOLSON.

WASHINGTON, D. C., February 6, 1931.

CHAPTER 3

OCEAN MAIL CONTRACTS

LETTER FROM MR. JOHN NICOLSON RELATIVE TO POSTAL ROUTE FROM SAVANNAH, GA., TO EUROPE

FEBRUARY 26, 1931.

Hon. WESLEY L. JONES,

United States Senate, Washington, D. C.

MY DEAR SENATOR: The statement by Mr. Plummer, vice chairman of the United States Shipping Board, published in Congressional Record of January 23, came to my attention accidentally; no notice was sent me from any source that such a publication was intended or had been made. This fact is mentioned because most of the statement is of personal references to the writer, as the author of Senate Document No. 210, entitled: "The Truth About the Postal Contracts."

My reply, published in Congressional Record of February 9, mentions that Mr. Plummer's comments on the author's relation to the grant of a postal contract for route No. 33 from Savannah to Europe would be answered separately, and I wish to partly cover the matter in this letter; and, if you will indulge me, make several general comments which will materially aid you in evaluating the vice chairman's statement.

The vice chairman devotes a full column of fine print to the Savannah contract. He says that while the author "denounces the Shipping Board for acting along these very lines (i. e., as criticized in the Senate document) he charges the author with having advocated, and indeed applied, the very policies in favor of the port "of his old home city, Savannah," and cites my letter dated August 17, 1928, in support of the comment. (For this letter see p. 28.)

The writer admits his keen interest in southern ports; he lived 30 years in the South. Any imputation, however, that his official influence or work was applied in their favor, to the prejudice of the rights of other ports or areas, is unfounded and untrue. His influence was to the end that benefits extended by the Government to other areas should likewise be applied to the ports of the South Atlantic and the Gulf; as a matter of fact that had not and has not

been done. To illustrate, \$135,000,000 has in the aggregate been awarded postal routes from the one port of New York, whereas the aggregate of all contracts for routes, in the aggregate, from all ports south of Baltimore on the Atlantic coast, is less than \$4,000,000.

Under these circumstances I became active to secure to southern ports a more equitable share of benefits under the law, including benefits under the postal contracts; hence my letter of August 17, 1928, from which he quotes, and about which he says:

Although the line at that time had not even been purchased, and ultimately was purchased at the unprecedented low price of \$3 per ton, which price was half consumed by the repairs which the board was forced to make before these ships would be accepted, Mr. Nicolson apparently determined that buyers of his old home's service should run no risks whatever in taking over this line, had several negotiations with the Post Office Department regarding a mail contract, and finally secured one at the maximum mail pay possible under the law of 1928.

The vice chairman's obvious intent is that the reader shall think the author is responsible for (a) the sale of the ships at so low a price as \$3 per ton; (b) having them put in such a fine state of repair, for delivery to the purchasers, as that the repairs cost half the purchase money; (c) that he "finally secured a mail contract at the maximum mail pay possible under the 1928 law"; and (d) that he was responsible for the terms of the contract and "didn't even suggest that the Savannah contract ought to contain a provision for building at least one new ship. Why?"

The writer can not claim merit or be charged with responsibility for either of these items.

As to the first two, incident to the sale of the vessels, the vice chairman knows that neither official work nor informal contacts ever brought the author into negotiations or conferences concerning the sales prices of vessels or lines, or with respect to the amount expended on repairs of vessels sold. Having this knowledge, he nevertheless says: "This case being one where the 'subsidy' of low sales price and the subsidy of 'unjustifiable mail pay' were secured simultaneously."

Secured by whom, simultaneously? By the author, according to the vice chairman. The disclaimer of responsibility is not intended as a criticism of the terms—for the situation as of time of contract, and its terms, have not been analyzed. If however, it violates any of the principles enunciated in the Senate document, it is disapproved.

As to the second two items, (c) and (d), incident to the postal contracts: The board's functions in respect to these were allotted, in their preliminary aspects, to the bureau of the board of which I was director, and of which the vice chairman was the commissioner in charge. Notwithstanding this fact, because of the director's protests and disapprovals of the methods and policies applied by the commissioner, opportunity to even suggest the terms, when the matter was up for official action, was not accorded the director.

The motive of the vice chairman, in attributing to the author responsibility for the terms of the Savannah contracts, is to attribute inconsistency to him, as the Senate document criticizes maximum rates in certain cases, especially when an early "subsidy" had been granted in the low sales price.

With similar motive, he comments on the Mail in Fact Transported (Senate document, p. 36) :

But in this impressive list Mr. Nicolson makes no reference to the fact that the mail actually carried by the Savannah Line during four months would have amounted to only \$35.66, while the mail contract pay was approximately \$130,000. * * * Why did he indulge in this omission?

This comment suggests this was the only "omission." There were then 25 postal contracts outstanding, and 17 only are in the list Mail in Fact Transported, hence 8 were not mentioned. To have put in these would have been cumulative only, and legal experience has taught an overaccumulation of evidence serves no useful purpose.

Prior to writing the letter of August 17, 1928, conferences, informally, with the Post Office Department revealed it was not apparent to them, a route from a South Atlantic port to Europe could be declared a postal route, as the ordinary course of mail would be by the fast vessels in the North Atlantic route. The writer submitted these questions: (a) Would it satisfy requirements if parcels post only moved by that route? (b) Could not parcels post originating in the southeast quarter of the United States be sent by a South Atlantic route; and, if so, (c) does enough parcels post originate in that area to justify declaring the route a postal route under the new law?

The Post Office Department responded to the suggestion of a test, and had post offices in that area make a 10-day count of parcels post originating in them, addressed to Europe, with encouraging results. My letter of August 17, 1928, was then written. This was long before the line was sold. The letter reveals it was not a brief for any particular or prospective purchaser but an appeal for the route and for the port, no matter who bought the line. These activities were during the absence of the commissioner in charge. Upon his return, for reasons previously mentioned, the writer's part soon ended. He had no part in the determination of the rate to be paid, or provision relative to new tonnage.

Although the 1928 letter is substantially consistent with the Senate document, let us assume that it had advocated terms like those awarded lines from other ports, to the extent that such terms had become the general and uniform practice of those in control. Although one who championed the southern ports had even then believed the terms were based on wrong views, legally and economically, would that be a reason, ethical principles not being involved, why southern ports should not be made to benefit by the policy and practice in fact being broadly applied to other areas?

To answer "yes" would be equivalent to ruling that a southern Democrat opposed to a protective tariff should not, a protective tariff having been enacted, demand for southern ports any benefits accruing under it. When the ocean mail act of 1891 was under debate, although many southern Senators were in opposition, nevertheless, Senator Morgan, speaking in behalf of southern ports, said (vol. 22, p. 3641) :

* * * When it comes to the division of bounties and subventions voted by the Congress of the United States, we want to have a chance at once to enjoy some of those benefits.

Furthermore, and in conclusion: When the August, 1928, letter was written, he knew that wrong methods and policies had been

applied, but the contracts, which had been granted, and the collateral facts bearing on them, had not been fully analyzed and ascertained; hence their enormity had not become fully apparent; this came when the writer, some time later, was preparing a paper he had been requested to present before the American Association of Port Authorities, November, 1928, wherein he discussed the whole group, demonstrating how southern ports had not been awarded a proportional share. The author did not think his address before the Association of American Port Authorities was the occasion to dwell on other aspects of the matter, nor had his own convictions fully matured.

During 1929 he was convinced the discriminations against southern ports was not the only grave objection to the system that had been created and applied, resulting in many grossly excessive contracts, and he thereupon determined on a course of procedure which culminated in Senate Document No. 210, entitled "The Truth About The Postal Contracts," applied as subsidies to shipping.

Very respectfully,

JOHN NICOLSON.

POSTAL CONTRACTS AND SOUTH ATLANTIC PORTS

Letter from Mr. John Nicolson quoted from by Mr. Plummer, and referred to above:

UNITED STATES SHIPPING BOARD,
Washington, August 17, 1928.

HON. WARREN IRVING GLOVER,
Second Assistant Postmaster General,
Washington, D. C.

DEAR SIR: Referring further to the possibility of a postal contract for the route between a South Atlantic port and north Europe ports about which Mr. White, director of foreign mails, and the writer have several times conferred, with special reference to the route at present covered by the United States Shipping Board American Palmetto Line:

At our last conference we also had present Mr. E. T. Trosdal, the managing operator of the United States Shipping Board line out of Savannah, and the possibility of changes in the service in conformance with postal requirements was considered at length. The conference closed with the understanding that Mr. Trosdal would give the matter further consideration; this he has done, and has written us the results of his inquiries.

Although it was not suggested that a weekly service would be a condition precedent to obtaining a contract, Mr. White tentatively suggested that a weekly service to the United Kingdom and the Continent would simplify the problem from the point of view of the Postal Service. The possibility of an 8-day schedule has therefore been considered by Mr. Trosdal and he is of the opinion that a private purchaser would not be justified in purchasing the line, even with the assistance of a postal contract, under an 8-day service guaranty. To install and maintain such a service would probably result in operating deficits exceeding the total postal compensation received.

This opinion is, of course, based on present conditions. However, all parties interested hope for an increase of exports and imports moving through South Atlantic ports, and that a weekly service in course of time may be amply justified financially and provision might be made for a weekly service when conditions justify it. Apart from a postal contract, the guarantee contemplated by the advertisement of the Shipping Board for the sale of this service to private parties has reference solely to a total of 24 sailings during the year, with large discretion in the purchaser as to exact date of sailings; that is to say, if a sailing is planned for a given date, the purchaser would be free to delay the sailing for a while to procure additional cargo, always provided the total sailings required were in fact met during the year, and that two occurred each month. Under a postal contract, this uncertainty would, of course, have to be eliminated to the end that the mail would arrive at destination by the contemplated dates.

While the managing operator of the Shipping Board has informed us that an 8-day schedule would be too onerous for a purchaser to assume, even with postal aid, he is of the opinion that three sailings per month, on fixed dates, with intervals of 10 days, could be reasonably risked by a purchaser, with postal aid, the sailings to be, say, on the 5th of the month, to Bremen, with a stop at Plymouth; on the 15th, to Liverpool, with a stop at Brest, France; on the 25th to Bremen, with a stop at Plymouth; and so on, indefinitely, the exact dates of sailings, however, to be mutually arranged. This would furnish 36 sailings per year. It is recognized that the mail matter which would be chiefly transported by this route would be parcel post. The 10-day count very kindly made at our request by your department in early July, to ascertain the parcel post movement from post offices in the southeastern area of the United States to north Europe ports, furnish most encouraging statistics in favor of a postal contract for the transportation of such mail through a South Atlantic port, instead of having it go by rail to New York, thence to destination; its transport through, say, Savannah, is made more feasible because of the postal regulations which allow it to be held in New York as long as six days, in order to send it by an American steamer from that port; and to this six days must be added the time for transportation by rail from point of origin to New York, to the extent that such rail transportation may exceed the rail transport to Savannah.

It is frankly recognized both in Congress and in the administration of certain laws relating to ocean mail (such as the ocean mail act, 1891; sec. 24 of the merchant marine act, 1920; and the recent act of 1928) that the plan is in no sense solely for the transportation of mail; jointly with this important aspect of the matter is the fact that the development of our merchant marine is also intended, and the cooperation of the Post Office Department to that end has been most gratifying to the friends of the merchant marine. It is the obvious policy of Congress that the development of our merchant marine shall be a geographical development, in the sense that lines operating from various parts of the United States should be encouraged and developed. Section 8 of the merchant marine act, 1920, has this in view in assigning to the Shipping Board the study

of problems incident to the movement of our foreign commerce through natural channels. It is a fact that much of this commerce does not move through natural channels, and this fact is due, not to deficiencies in our ports, but to railway rates or regulations or other collateral factors which should be offset or corrected in favor of our exports and imports moving normally, from a transportation point of view. It is within our knowledge that cotton, for instance, has been sent from points in Georgia and Alabama by rail to New York, for transshipment there to Liverpool; it is obvious this is an abnormal transportation fact, and, if possible, should be corrected. We refer to it only as evidence of the importance of postal contracts being awarded in proper cases to South Atlantic and other southern ports in aid of steamship services from these ports in foreign trade.

Postal contracts have been awarded under the 1928 act very generously to services operating from North Atlantic ports, but not one has as yet either been awarded or advertised for a postal route from a South Atlantic port; the policy of geographical distribution of governmental aid in support of our merchant marine, to which we have referred above is therefore in harmony with the suggestion now under consideration. This aspect of the matter has been the subject of press comment throughout the southeastern area of the United States, and also of formal action by various trade bodies of prominent southern cities, including cities of the interior. We will not undertake to enumerate these, but as specimens, send herewith a copy of a letter dated August 10 received by us from the Atlanta Chamber of Commerce, and also of a letter dated August 14 from the Macon Chamber of Commerce, inclosing also a formal resolution of that body. We understand several such resolutions have been sent you.

We appreciate, of course, such comments and communications are not controlling factors and that your consideration of the case will naturally be on its merits; we refer to them as evidencing the keen interest of the people of that area in the entire situation and in this particular project; that such general interest should be recognized is in harmony with that part of section 7 of the merchant marine act, 1920, which directs the Shipping Board in making sales of steamship lines to give special preference to people of the "domestic community" involved in the transaction.

The port of Savannah with its extensive foreign commerce is an apt illustration of the conditions of ocean transportation in our foreign trade. During the fiscal year ending June 30, 1928, the total number of sailings from Savannah of vessels in foreign trade was 362, and of this entire number only 65 were American flag sailings, thus leaving 297 as sailings under foreign flags. To present the illustration in another form: The total amount of cargo involved in all sailings for 12 months ending March 31, 1928, was 383,011 tons, and of this total only 92,901 tons were carried in American flag vessels, thus leaving 290,110 tons as having been carried in foreign flag vessels. Of the total sailings, only 18 per cent were American vessels; of the total cargo carried, less than 24 per cent was carried in American vessels.

As applied to the service we have had under consideration, namely, from Savannah to north Europe, the importance of Government aid

is demonstrated by the very heavy deficits which the Shipping Board has had to meet in the operation of the line now offered for sale. If the 10-day mail service to northern Europe and the United Kingdom, as suggested above, should be adopted as the basis of a postal contract, the expenditure by the Government through the Post Office Department, would be less than \$10,000 per voyage, whereas the cost to the Government of maintaining this service during the fiscal year ending June 30, 1928, was nearly \$20,000 per voyage (to be more exact, it averaged \$19,238 per voyage); hence if the line is sold to private operators, and a postal contract is given them on the basis of three sailings per month, as suggested above, the Government would save nearly \$10,000 per voyage, compared with last year's operations. We, therefore, commend to your consideration whether steps may not be appropriately taken to advertise the route mentioned on the basis suggested.

Please permit me to express my appreciation of the freedom you have given us to write you informally and from the point of view presented by this letter.

Very respectfully,

JOHN NICOLSON,
United States Shipping Board.

CHAPTER 4

POSTAL CONTRACTS WITH THE SHIPPING BOARD

REMARKS OF HON. WESLEY L. JONES, OF WASHINGTON, IN THE SENATE OF THE UNITED STATES, FRIDAY, JANUARY 23 (LEGISLATIVE DAY OF WEDNESDAY, JANUARY 21), 1931

LETTER AND ANALYSIS OF AN ARTICLE BY MR. PLUMMER, VICE CHAIRMAN OF THE SHIPPING BOARD

Mr. JONES. Mr. President, a short time ago there was printed in the Record an article prepared by Mr. Nicolson with reference to postal contracts entered into by the Shipping Board with the Post Office Department. I have here an analysis of that article by Mr. Plummer, vice chairman of the Shipping Board, and also a letter from him stating that the analysis has been unanimously approved by the Shipping Board. I think that his letter and the analysis should appear in the Record, and I ask that they may be printed in the Appendix.

There being no objection, the letter and analysis were ordered to be printed in the Record, as follows:

UNITED STATES SHIPPING BOARD,
Washington, January 22, 1931.

HON. WESLEY L. JONES,
United States Senate, Washington, D. C.

MY DEAR SENATOR: To you as a coauthor of the merchant marine act, 1928, I send this my analysis of the Nicolson Truth About the Post-Contracts, which analysis was prepared by direction of and has been unanimously approved by the United States Shipping Board.

Sincerely yours,

E. C. PLUMMER, *Vice Chairman.*

FACTS ABOUT THE POSTAL CONTRACTS

Some comments appearing in the Congressional Record of December 20, 1930, comments voicing impressions received from a thesis by Mr. John Nicolson and titled by him "The Truth About the Postal Contracts," indicate that a more accurate title for that work would be "Some Half Truths About the Postal Contracts."

To illustrate, take his criticisms of the Dollar Line mail contracts, presented on pages 65, 66, and 67. Condemning the contract of the Admiral Oriental Line—that is, the Dollar Line—running from North Pacific ports to the Orient, he says: "The outward voyage exceeds 6,800 miles. The annual subsidy therefore exceeds \$1,070,000 for each of the first five years and \$1,420,000 for each of the remaining five years." Then on page 67, commenting on those payments, he says: "It is obvious they were awarded solely as subsidies." "Solely as subsidies!" Yet he neglects to state the fact—which his persistent inquisitiveness makes it absolutely certain he must have known—that even while the Shipping Board was operating this line in 1924 the mail pay received by the Admiral Oriental Line for outward mail alone was \$813,443.38. That is, the post office actually paid on an exclusively poundage basis, a basis which even Mr. Nicolson has not questioned as being for services actually rendered, more than three-quarters of the sum which they now pay those same ships under this "amazing" mail contract; and yet, ignoring the amount which the Post Office Department would have to pay these vessels if they still were on a poundage basis, he declares this payment for carrying the mail under a mail contract is exclusively, is "solely" a subsidy. If that misstatement was not intended to mislead, why was it made?

See replying comments III, pp. 18-19; also, p. 24; also p. 44.)

An approximately fair statement of the case would have been:

"These mail-contract payments are a substitute for the old poundage-rate payments; and since poundage payments were for the services actually rendered, the difference between what would have been the poundage payments and the payments actually made under this mail-contract system, is in my opinion, solely a subsidy.

Of course, even that statement would not have been wholly fair to the mail contract because a vessel carrying on a poundage basis can withdraw from the service any time it desires, just as four great British vessels, because of business depression, last year withdrew from New York services to the east and west coasts of South America but these mail contracts compel operation for 10 years, whatever the business conditions may be—a burden that easily might wipe out that increased compensation here called a subsidy. Yet he says the whole amount paid under this mail contract is "solely" a subsidy. And he also ignores the fact that, according to Sir Frederick Lewis's recent official statement, operating costs of ships have increased from 75 to 80 per cent since our rate of poundage pay for mail was adopted.

Again, in attacking the Oceanic & Oriental Co.'s mail contract, he says (page 41):

"In this instance not only did the Shipping Board certify the vessels required, it also included in its certification that the vessels be paid \$2.50 per outward mile—the maximum rate. This fact is referred to, not only in justice to the then Postmaster General, but because the action taken was based on a principle we believe to be untenable, as follows:

"The board had before it an official certification from its own experts, based on their recent examination of the matter. This showed, not only that the lines could be operated without a deficit, but, based on a 3-year period, there would be a profit, approximately of \$230,000."

Now why does he rip these figures from their explanatory context and not only omit all reference to the \$2.50 mail rate appearing right below the fragment he quotes, but also omit those conclusions reached by that same board of experts found on the same page with his extracted "profit" figures, viz:

" * * * It would appear under any circumstances that the surplus shown on the attached statement would be insufficient for replacements of any kind. * * * As suitable replacements are the very essence of permanent operation on a profitable basis, it is felt that this would be the thing aimed at in allowing this company a liberal mail contract as contemplated under the new mail act."

(See replying comments IX, p. 22.)

While emphasizing the fact that the recipients of this "mail bounty" were not bound to build any new ships under their contract, he knew that the owners of these lines not only had announced their purposes to build three magnificent ships of at least 20 knots speed, to cost upwards of \$25,000,000, but on October 25, 1929, two of these ships actually had been contracted for, with an option for a third sister ship, which option has since been exercised, and that ship also is now under construction. Why does he leave the impression that no such facts exist?

(See replying comments X, p. 23; also p. 49.)

And he also knew that, in spite of such aids as the act of 1920 had provided, aids he asserts to have been ample, not a single vessel for foreign trade was built in American yards until the mail act of 1928 was passed.

Now as to another class of mail contracts: Mr. Nicolson knew perfectly well when he presented those elaborate detailed statements, showing how small is the amount of mail carried on certain freight lines, when compared with the amount of mail compensation received by such lines, that in making these mail contracts there was no intention of having the amount of mail pay governed in any way by the amount of mail carried. In that section of the annual report of the United States Shipping Board for 1926, page 6, dealing with traffic, which section of the report Mr. Nicolson wrote, he uses this language:

"* * * The policy is clearly outlined that the compensation is not to be measured exclusively by the transportation value of the service rendered but by a broader test, including other factors, and including the amount of compensation necessary to maintain the route as a service desired 'in aid of the development of a merchant marine adequate to provide for the maintenance and expansion of the foreign and coastwise trade of the United States and a satisfactory postal service in connection therewith.'"

(See replying comments II, p. 18.)

The following year he practically repeated that statement (p. 8, Annual Report of the United States Shipping Board for 1927).

Though he adroitly creates in this thesis an impression that the act of 1928 not only repealed existing legal aids to American shipping but failed to provide any special aids whatever, so that (p. 4),

"The Postmaster General would have been well within the law had he refused to pay out under it 1 cent in excess of the commercial value of the transportation service performed; and yet he elected to commit the Government to paying hundreds of millions in excess of that value!"

and, repeatedly referring to "subsidies," charges that, contrary to the intent of Congress, contracts have been made providing for payments far in excess of what even subsidies would ask.

(See replying comments, p. 18.)

Such was not his revealed opinion on August 17, 1928, when he so officiously took up the matter of providing a mail contract for a ship line running out of his old home city, Savannah, then under consideration. Although the line at that time had not even been purchased, and ultimately was purchased at the unprecedented low price of \$3 per ton, which price was half consumed by the repairs which the board was forced to make before these ships would be accepted, Mr. Nicolson apparently determined that buyers of his old home's service should run no risks whatever in taking over this line, had several negotiations with the Post Office Department regarding a mail contract, and finally secured one at the maximum mail pay possible under the law of 1928—this case being one where the "subsidy" of low sales price and the "subsidy" of "unjustifiable mail pay" were secured simultaneously.

(See replying comments, p. 26-27.)

In his 4-page, single-space letter of approximately 1,240 words, dated August 17, 1928, or two months before this Savannah line was purchased, Mr. Nicolson says, among other things:

"Referring further to the possibility of a postal contract for the route between a South Atlantic port and north Europe ports about which Mr. White, director of foreign mails, and the writer have several times conferred with special reference to the route at present covered by the United States Shipping Board American Palmetto Line:

"* * * It is frankly recognized both in Congress and in the administration of certain laws relating to ocean mail (such as the ocean mail act, 1891; sec. 24 of the merchant marine act, 1929; and the recent act of 1928) that the plan is in no sense solely for the transportation of mail; jointly with this im-

portant aspect of the matter is the fact that the development of our merchant marine is also intended, and the cooperation of the Post Office Department to that end has been most gratifying to the friends of the merchant marine. It is the obvious policy of Congress that the development of our merchant marine shall be a geographical development in the sense that lines operating from various parts of the United States should be encouraged and developed.

" * * * As applied to the service we have had under consideration, namely, from Savannah to north Europe, the importance of Government aid is demonstrated by the very heavy deficits which the Shipping Board has had to meet in the operation of the line now offered for sale. If the 10-day mail service to northern Europe and the United Kingdom, as suggested above, should be adopted as the basis of a postal contract, the expenditure by the Government through the Post Office Department, would be less than \$10,000 per voyage, whereas the cost to the Government of maintaining this service during the fiscal year ending June 30, 1928, was nearly \$20,000 per voyage (to be more exact, it averaged \$19,238 per voyage); hence if the line is sold to private operators, and a postal contract is given them on the basis of three sailings per month, as suggested above, the Government would save nearly \$10,000 per voyage, compared with last year's operations; we therefore commend to your consideration whether steps may not be appropriately taken to advertise the route mentioned on the basis suggested. * * *

(For this entire letter, see pp. 28-31.)

It will be noted that not only does he here declare it was the intent of Congress that this act should give aid to ships but in justification of it he shows a fact, which is to some extent true of every line of freight ships the Government sold, that by giving these mail contracts the Government vastly reduces its losses in the operation of such lines—in this case pays only \$10,000 per voyage in place of approximately \$20,000 per voyage losses which the Government was paying before this line was sold. Is such an argument to be limited to Mr. Nicolson's own old home city? Yet he denounces the Shipping Board for acting along those very lines. While he condemns so severely the alleged practice of the Postmaster General in making an advertisement fitted to a particular line, in this case he even outlines for the Postmaster General what he wants for this Savannah line when it shall have been purchased. Why doesn't he state that the deficit of ship operation by the Government for the fiscal year ending June 30, 1925, immediately after which date the sale of lines began, was \$30,000,000; and that largely as a result of these sales an appropriation of less than \$2,000,000 is now being asked? Is a saving made by giving a mail contract at the maximum rate to a Savannah line perfectly proper and commendable, but not justifiable for any other port? And he doesn't even suggest that the Savannah contract ought to contain a provision for building at least one new ship. Why?

(See replying comments, p. 26.)

Yet he devotes pages 82 and 83 of this thesis to a detailed statement of the actual amount of mail carried, compiled under the subhead "The Mail in Fact Transported"; among others citing the American South African Line, where he says: "Compensation, at normal rates, \$375; amount in fact paid, \$165,000."

But in this impressive list Mr. Nicolson makes no reference to the fact that the mail actually carried by this Savannah line during four months would have amounted to only \$35.66, while the mail contract pay was approximately \$130,000, yet this Savannah line was one of those included in the list furnished him by the Postmaster General, upon which report he avowedly bases this 2-page exhibit. Why did he indulge in this omission? Why did he also omit from this exhibit that part of the Postmaster General's detailed statement which showed such heavy amounts of mail being transported by other lines?

(See replying comments, p. 27.)

Furthermore, disregarding the explicit statement of the Postmaster General that American flag vessels, independent of contracts, are paid 80 cents per pound against 26.3 cents per pound for foreign vessels, Mr. Nicolson's computations for this exhibit use the foreign rate of pay; and even then his figures are astoundingly wrong—for example, he calls the export normal rate pay \$1,770 when his own figures should have shown him that even at this foreign rate pay, the amount would be \$17,629.94—\$40,299.36 at American poundage rates.

The total of his several amounts, alleged here to be the normal mail pay earned, is only \$92,051. Had those several amounts been correctly stated, they would have totaled \$334,871.57. At the regular poundage rates paid

American flag vessels, the total would have been \$791,414.81 for mail actually carried.

(See replying comments, p. 17.)

He may now attempt to plead that he did not intend to condemn the principle of granting mail aid in excess of poundage rates, but only to claim that the payments made under these mail contracts are too high. But he is estopped from making this plea by his own elaborate emphasizing of the small amount of mail carried by these lines; for if contract aid beyond the poundage earnings of these lines is to be allowed, obviously, the amounts of mail actually carried by the ships involved, can not have any legitimate bearing on the problem at hand; and, therefore, the emphatic introduction of this feature could only have the effect of confusing and misleading, even if the computations had been properly made.

(See reasons given, top p. 36, S. Doc. 210.)

Report No. 1279 of the Merchant Marine and Fisheries Committee on the act of April 17, 1928 (it was in the House that the mail-pay section of this bill originated), states:

" * * * Other nations have proceeded upon the theory, in most instances, as have your committee, that the payments made are for a definite national service rendered. * * * The difficulty in the United States always has been the inadequacy of the payments authorized, a failure to aggressively and continuously adhere to the policy, and an unwillingness to make contracts for a substantial term of years. * * * Generally speaking, it may be said that vessels moving between ports where competition by foreign-flag ships is lawful, are eligible for contract. * * * "

Criticizing the Scantic Line's mail contract and referring to the speed shown by certain foreign vessels competing in this service, Mr. Nicolson says: "Should not the board have certified a size and speed of vessels capable of meeting this foreign competition?" But he carefully omits to state that those so-called faster foreign vessels are in the service for only a part of each year—the more profitable period—while the Scantic Line ships serve American commerce all the year round, and when these so-called faster ships are withdrawn, the Scantic ships are at present the fastest in that service.

And he ignores the fact that after its faster service was inaugurated, the mail pay on this line was \$550,000, while the mail carried by it during this same period would have cost on a poundage basis \$380,124.55. Why does he omit these very important facts? He likewise overlooks the fact that the increased amount of mail now carried on these American ships without additional compensation has largely reduced the amount which the Post Office Department was formerly paying to foreign vessels.

(See S. Doc. 210, p. 5.)

Had Mr. Nicolson's purpose been to show that the Government was paying the ship lines too much money, why did he not proceed to prove it and stop there? Why does he raise the point that the act of 1923 provides for no aid to American ships and declare that the Postmaster General would have been entirely within the law had he refused to pay anything beyond the "commercial value"; that is, nothing more than the poundage rate under the International Postal Union? What possible purpose can he have in thus attacking the meaning of the law and the validity of contracts made since its enactment, except to frighten shipping men out of proceeding with new construction which is now going on so magnificently to the future advantage of American commerce and the present great advantage of American labor?

As illustrative of the tremendous difference in the operating cost of American and foreign ships, take the case of three Norwegian steamers now being operated by an American company under 2-year charter. These ships are practically duplicates of the freight ships which the Shipping Board has sold for service on lines operating in the foreign trade. The operating cost of one of these Norwegian ships is \$345 per day, which sum also covers depreciation and interest on a valuation of \$410,000. The operating cost of these similar American freighters is \$570 per day, based on a valuation of only \$200,000. That is, the daily operating cost of the American ship, based on the bargain price of only \$200,000, is nearly twice the daily operating cost of these Norwegian ships, based on their full valuation of \$410,000.

(See replying comments XI, p. 24.)

It was the knowledge of such facts as these which guided the Merchant Marine and Fisheries Committee of the House when determining the rate of mail compensation which might be allowed to American vessels.

Now, as to the two subsidies he says these lines enjoy: Take the low price at which ships were sold. These lines were sold at a low price in an attempt to keep the services established by the board in operation until such time as Congress might pass aid legislation. The contract of sale provided for operation for a period of five years. The board attempted to get a longer service period guaranteed. It strove persistently for a 10-year period, but no company would undertake such a contract. It was reasoned that the low price at which the vessels were sold would enable the buyer to stand such losses as might be incident to their operation for five years. Then the owner would have his fleet free to operate in the protected coastwise trade of the United States, and thus come out at least even at the end of his contract. What the board really sold when transferring these lines to private American citizens at such seemingly low prices was a 5-year contract for guaranteed operation. But it was recognized that selling these lines at reduced prices under 5-year service guaranties merely meant utilizing such vessels as subsidies, causing the vessels to live off themselves so long as they lasted—there was nothing in the plan to make possible any new ship construction—no replacements were possible.

(See V, S. Doc. 210, p. 11.)

Seven of the lines sold under these conditions already have worked out their 5-year contract, and the others which were sold before the 1928 legislation was enacted are very near the end of their 5-year period; so that the subsidy which was involved in the low price at which these vessels were sold has been practically eliminated. It was known, of course, that our freighters, built without any thought of adapting them to any particular trade but designed to permit of the quickest possible construction and equipped with machinery that could be most quickly built, could not long compete with these new foreign ships which immediately after the close of the World War foreign nations began to build (it will be remembered that there has been built during the last 10 years by foreigners some 10,000,000 tons of shipping, or more than the entire fleet of American ships now engaged in foreign trade), but it was hoped to continue these American services, so essential to the development and production of American commerce, until Congress did give the necessary aid. That such aid would be given was confidently expected, and on July 3, 1926, the Senate passed a resolution (S. Res. 262) directing the Shipping Board to prepare and submit to the Senate plans for building up and maintaining an adequate merchant marine for commerce and national security (1) through private capital and under private ownership, and (2) through construction, operation, and ownership by the Government. The Shipping Board complied with this request. The act of 1928 came. It was not the form of law which many desired. It was not the form of law which the Shipping Board had submitted to the Senate. But it unquestionably was the greatest piece of legislation for the benefit of American ocean-borne commerce and American shipping that has been passed in the last three-quarters of a century.

(See replying comments, p. 19; also see XII, S. Doc. 210, p. 34.)

It is safe to say that had not mail-aid legislation come when it did every one of these freight ship services, which had been sold at such seemingly low prices, would have gone out of the foreign service at the expiration of their 5-year period. They would have eaten up in losses the aid which had been given them in lower prices, and that was why the Shipping Board never was able to secure at any price whatever a guaranteed operation of these freight lines for more than five years.

Stating that these lines had been purchased without mail pay and thus implying that therefore they needed no mail contracts to make possible their continued operation ignores the fact, well known to Mr. Nicolson, that the aid coming from reduced sales prices was expected to be entirely consumed in five years, the period of guaranteed operation. Therefore, that statement could have no other effect than to mislead those who were necessarily unfamiliar with all the many details of these problems.

(See replying comments, p. 20.)

Again, in that section which Mr. Nicolson prepared for the Annual Report of the Shipping Board in 1925, page 24, he says:

"The value of this power (pay more than poundage pay) in the development of the merchant marine is further illustrated in the active negotiations which have been conducted by the Bureau of Traffic during the fiscal year with prospective purchasers of existing lines of the board, the success of whose operation after having passed into private hands will so largely depend

upon adequate postal contracts. Facts developed by this bureau during the fiscal year in negotiations with a prospective purchaser of the Pan American Line, on which line is operated some of the finest of the Shipping Board's vessels, between New York, Rio de Janeiro, Buenos Aires, and other east coast South American ports, showed that a postal contract of about \$1,000,000 per annum under the provisions of sections 7 and 24 would assure success of the operations of the line commercially. * * *

It will be noted that here Mr. Nicolson makes no reference whatever to the amount of mail carried; nor does he mention the fact that this million-dollar compensation recommended was based on the prosperous conditions of 1925 and before the great Furness Withy Line of Britain started running against these American ships their new economical Diesel-engined vessels which are now competing so severely with this Munson Line. The single fact that the Munson steamers consume 130 tons of fuel oil per day, while their new British competitors consume only 43 or 44 tons per day in their Diesel engines, shows what a tremendous advantage these competitors of Munson have in this one item, even when full allowance is made for the higher cost of Diesel oil.

(See replying comments, VII, p. 21; also p. 24; also p. 48.)

If this thesis was designed to be informative, why were not some of these most important facts mentioned? Yet, ignoring these changed conditions and what he wrote in 1925, Mr. Nicolson now says that increasing the mail pay of this line \$200,000 over the figure he had named, makes reference to it "as 'amazing' seems not only justified but inadequate."

One effect of this foreign competition with Diesel ships in this New York-Buenos Aires run is shown by the fact that the Lamport and Holt Line (British) was compelled to withdraw their two fast passenger ships, the *Valkyrie* and the *Vandyke*, which were built at practically the same time as these Munson ships, and, like the Munson ships, were steam propelled. Mr. Nicolson ought to have known, and if he did not, he never should have attempted to comment on these mail contracts, that the advent of the Diesel engine has caused such a development in the efficiency of steam propulsion that the machinery of any steamer built 10 or more years ago is to-day obsolete. The steam plant on any vessel built recently has an efficiency twice as great as the steam plant in vessels built when the Munson and Dollar ships were built, and since fuel oil is the greatest single operating expense of a steamer, what this new competition means to our war-built fleets can readily be understood.

(See replying comments, VI, p. 20; also p. 49.)

How keen foreign competition has become is shown by the statement of Japan's greatest steamship company, the Nippon Yusen Kaisha Steamship Co., in its regular semiannual report to the stockholders just issued. This powerful company, which operates not only to Pacific but to Atlantic and Gulf ports of the United States as well, reports a deficit of 5,566,562.68 yen (\$2,755,448.50) during the past six months.

Well, if an old established line like this, operated by Japanese labor, loses over two and one-half million on six months' operations, where would American lines, meeting such competition, be without those "amazing mail contracts"?

It is a significant coincidence that last year, while Mr. Nicolson was exclaiming against American ships getting so much pay, the Japanese Government, through its department of communications, provided a new subsidy of 5,000,000 yen per year for its freight ships operating exclusively between foreign countries. But the Japanese department of communications understood the shipping problem and wanted their nation's merchant ships to succeed.

Unable to ignore the famous case of the *Lusitania* and *Mauretania*, Mr. Nicolson makes this indefinite and, in part, false statement regarding those two ships:

"Those who seek to justify the contracts made usually mention that Great Britain, about 25 years ago, subsidized the building and the operation and the maintenance of the steamships *Lusitania* and *Mauretania*, vessels exceeding 30,000 tons each, and a speed of 30 knots—the greatest and fastest vessels in the world. Such products are indeed real factors in a merchant marine, and as naval auxiliaries."

Yet he knew that the British Government loaned the Cunard Line the entire amount of money necessary to build these ships at an interest of 2¾ per cent and gave it a naval subvention and mail contract of over a million dollars a year for a period of 20 years, thus enabling the company to pay off the entire cost of the ships and leave a large surplus besides. It is incredible that he did

not know that these ships were only of 26 knots speed and no larger than the two vessels now being constructed by the United States Lines for use as cabin liners.

(See replying comments, p. 17.)

Now, to return to the criticized Dollar contracts:

True neither of these contracts requires the building of new ships—but what happened? No sooner had these lines passed into the hands of private American citizens than the great Canadian Pacific Railroad began the building of two ships, larger, faster, and more efficient than the ships which had been purchased by the Dollars from our Government. That, of course, necessitated the building of faster vessels by the Dollar Co.; and already one of these needed ships has been launched; another is on the stocks; two more soon will follow them; and still two more are being contemplated because maritime knowledge indicates that they will be needed. Now, to refer only to the two ships at present being completed, saying nothing of those that will follow. These two ships will cost in the vicinity of \$15,000,000, or at least \$6,000,000 more than they would cost if built abroad. This means that these ships must carry an extra annual burden, created by extra investment, of extra depreciation, extra interest, and extra insurance, three burdens commonly figured at a total of 15 per cent, or at least \$900,000 per year, or \$9,000,000 during the 10-year period referred to in this criticism. In addition to that, and still ignoring the fact that two more vessels will shortly be built, to be followed by two more, a matter of mere business necessity regardless of contract compulsion, we have \$9,000,000 out of that \$27,000,000 "mail subsidy" used up in the extra overhead expenses of these two vessels alone—expenses which foreign competitors do not have to bear; and the balance is not for the benefit of these two vessels alone but for the two trans-Pacific fleets which the Dollars now are operating. The 5-year period of guaranteed service for which these Government-built vessels were sold will soon have passed, and were it not that mail pay makes it profitable to operate these ships in foreign trade their owners could put them into some domestic trade.

(See replying comments, III, p. 18; also p. 24; also p. 44.)

Whether or not the Postmaster General is paying too much under the provisions set forth in the act of 1928 can not be decided justly on a mere figuring of actual expenses and income at any particular time. This fact has recently been again demonstrated. No one would claim that the actual figures appearing during an exceptionally prosperous year should be made the general rule, any more than he would contend that the needs of those vessels under the depressing conditions which have prevailed for the past year or so, should be the guide. Knowledge of shipping and a sound judgment furnish the safest guide. Mere figures may lead one far astray. It is wiser to overpay than to underpay. This is something the British Government always has understood, and their legislators have set precedents which it would be well for us all to consider with care. You can't build up a new service to maximum strength in 1 year or 5 years or 10 years. It takes a long time to develop reliable good will; for the owners of ships to get themselves entrenched in business; to make investments in the various countries they serve and so get a first-hand grip on business there—a fact brought out so emphatically by the presidents of the great Royal Mail and the Furness Withy Cos. at their annual meetings with the stockholders of those companies, where they pointed out that despite the terribly depressed ocean conditions, the income from those great investments which their companies had made in prosperous years, meaning those years before American ships began to come back on the ocean, and when freight rates were, as Sir Frederick Lewis stated in his recent annual address, 22 per cent higher than they are now, is sufficient to enable these British shipping companies to continue paying dividends.

Let us look at those British precedents. When Great Britain determined to establish the Cunard Line she granted that company a mail subsidy equivalent to 25 per cent per year on the value of that entire fleet—something which we haven't even begun to approach. When the Royal Mail was being established a subsidy of one and one-quarter million dollars per year was given to that fleet of little tumble-bug steamers, supposed to be able to achieve $8\frac{1}{2}$ knots per hour, and at the end of the first year, when in spite of that then great subsidy those ships showed a loss, Britain increased their compensation to \$1,350,000. When, during the succeeding nine years seven of their ships were lost Great Britain continued to pay that increased subsidy of \$1,350,000 and relieved the company from a large part of its contractual obligations by reducing the required number of sailings one-half. When the Peninsular, which later

became the Peninsular & Oriental Steamship Co., was founded, in addition to its mail contracts Parliament appropriated one-half million dollars to be drawn upon as necessary whenever the income of stockholders should fall below 6 per cent.

Now, contrast all that with the governmental treatment which has been accorded American shipping. When the Collins Line was established in the forties Britain met that challenge by increasing the compensation to Cunard until it was double the original amount to defeat the American ships. Then Cunard first cut the freight rates in half and then cut them in the middle again, making the rates only one-quarter of what they had been before our American ships appeared. Apparently Congress never perceived the great advantage to American commerce, to American producers and importers, which this tremendous reduction in freight rates brought about solely by the advent of American ships had produced; never realized that this saving in transportation costs and great resultant benefits to American commerce amounted to far more than that comparatively low mail subsidy cost the country; and so, when two of the Collins Line's ships were lost, instead of standing by the enterprise, as the British Government did in the Royal Mail case where seven of their ships had been lost, the American Government cut the compensation in half and finally withdrew it, and thus that great American line was wiped off the ocean.

(See replying comments top p. 22; also p. 49.)

Then came the ocean mail act of 1891. When the late Senator Frye reported that mail bill, he had been hard at work with practical shipping men. Knowing the opposition he would have to meet, he had insisted that they skin their prices down to the very bone. They did. He then came in with a recommendation of \$6 per mile for mail ships of 20-knots speed. At once these thesis writers, who are always so verbally active but never put a dollar into shipping, got to work, and they succeeded in convincing Congress that \$6 was too much money. They succeeded in getting the price cut to \$4. Senator Frye warned them that at that figure no company could survive. But he was not listened to. The theorists had the floor. The price was cut to \$4 and the American line which had been established in due time disappeared from the sea. Not a single replacement ever was or ever could be made for that line.

(See replying comments, IV, p. 19.)

One trouble with every attempt to get American shipping legislation, so far as a somewhat extended observation goes, has been the appearance of so-called economists, who seem to fear that some shipowner will somehow make enough money out of the business to buy himself a second shirt. Great Britain was always willing that her shipping men should not only be well clothed but should make money enough out of their services to enable them to build up interests in foreign countries, thereby securing enlarged markets for her products and insuring her the greatest merchant fleet in the world.

A comparison of the ships, which the Dollars are building, though not obligated so to do by any mail contract, with those Government-built ships which they now have in service, is very informative. Their present ships are of 14,119 gross tons. Their new ships are of 23,000 tons. Their present ships have a speed of 17 knots; their new ships have a speed of 20 knots. Their present ships can accommodate 535 passengers; their new ships will accommodate 1,214 passengers.

Regardless of what those mail contracts may not have required, the records show that, instead of only 12 new vessels, which appeared to be all Mr. Nicolson could discover as the result of those "amazing subsidies" granted American steamship companies now receiving mail pay, already have built or now are building in American shipyards 39 vessels, totaling approximately 463,000 tons, and costing approximately \$162,500,000. They have received bids for four additional vessels of approximately 18,500 tons, to cost approximately \$8,000,000. They have under consideration for early construction 22 vessels of approximately 314,000 tons, to cost approximately \$104,000,000.

(See replying comments, p. 54.)

In addition to these new vessels, there have been reconditioned 18 vessels of over 129,000 tons at an expenditure in excess of \$3,000,000, making a grand total of 83 vessels of 924,500 tons, to cost \$277,500,000, practically every dollar of which vast sum goes to American labor.

(See replying comments top p. 22; also p. 49.)

The value of these magnificent ships in protecting and developing the trade of this country with foreign nations, to say nothing of their value for purposes

of national defense, can not be expressed in mere dollars; but even their operation and upkeep will furnish employment to thousands of Americans.

According to this thesis, about everybody having had anything to do with the mail act of 1928 or its administration is wrong. Congress passed the wrong kind of a law, and while thinking of aiding ships achieved a dubious statute which destroyed all previous aids and authorized the Postmaster General to pay American vessels nothing more than the international postage rate.

The Postmaster General is wrong because he has "elected" to pay out millions of dollars to American shipowners when he didn't have to pay them a cent beyond the compensation fixed by foreign nations.

The Shipping Board is wrong as usual, making recommendations without due investigation or consideration, and not even putting its certifications in proper form, while these shipowners are just plain hijackers, jimmying the United States Treasury with voidable contracts and lugging off truck loads of gold, while those useless guardians, the Shipping Board and Postmaster General, quietly sleep on their beats.

Nevertheless, somehow these incompetent blunderers or worse have achieved net savings to the Government of millions of dollars, and these hijacking mail grabbers have already spent, or are preparing to spend in American shipyards, some \$277,500,000 for nearly a million tons of shipping, practically every dollar of which vast sum goes to American labor and touches on the industries of 48 States, and American commerce is thus being given such practical assistance as it never has known before.

(See replying comments top p. 25.)

Since these alleged intemperate acts have produced such magnificent results, wouldn't the reply that President Lincoln made to certain officious critics of General Grant's alleged habits be very applicable here?

JANUARY 21, 1931.

References revealing attitude of various Senators to Senate Document 210, expressed in Senate subsequent to publication of Mr. Plummer's article in the Congressional Record (page references are to this pamphlet):

Senator KING (replying to Senator Copeland's reference to new vessels of the Dollar line) (p. 44). I have a statement from Mr. Nicolson which I have compared with the data I have * * *. In his letter Mr. Nicolson criticises Mr. Plummer's attempt to discredit his statement [he then reads from letter, p. 44] and continuing: "The vice chairman"—speaking of Mr. Plummer—"who attempted to criticise Mr. Nicolson and to discredit his statement."

Senator FLETCHER (p. 3). The facts revealed in this Senate document (No. 210) relates to a field with which I am fairly familiar, and the document itself has been carefully examined by me. It is a splendid piece of work, and the author has rendered a fine public service. (P. 9.) * * * I regard it as very important information which the Senate ought to have. It is a most enlightening document. * * * Ultimately we must repeal that law, or modify, or change it in some way so as to correct the outrageous conditions that are set forth in the document. We ought not to endure it ourselves, and the country itself would be shocked, I am sure, if it understood just what has been taking place.

Senator McKELLAR (referring to S. Doc. 210) (p. 41). It is a fact that Mr. Nicolson, who is a very great expert, has gone into this matter very carefully, and some of the facts which he submits, and which have not been denied and can not be denied, show a perfectly astounding situation.

Senator FLETCHER (referring to Mr. Nicolson's "reply" (p. 17) to Mr. Plummer's criticisms) (p. 43). I have full confidence in

Mr. Nicolson's article published as a Senate document (No. 210). I think it is substantially correct. There has been an attempt to meet it by a statement from one of the commissioners published in the Congressional Record, and he (Mr. Nicolson) has replied very explicitly, as will be found on page 4490 of the Record of February 9. I would invite the attention of Senators to Mr. Nicolson's article inserted in the Record at that time (February 9, 1921) by the Senator from Tennessee. This "reply" is at p. 17 of the document.)

(See also editorial from New York Journal of Commerce, p. 63.)

CHAPTER 5

REFERENCES TO OCEAN MAIL CONTRACTS

IN THE RECORD OF FEBRUARY 16, 1931, UNDER THE TITLE "PARCEL-POST RATES"

Mr. KING. I am informed, Mr. President, by one of the officials of the Post Office Department that there will be a deficit of approximately \$165,000,000 in the postal receipts. Since that information was conveyed to me, we have passed a bill through this body, and I think it has also passed through the other body, and has gone to the President, calling for, perhaps, from \$13,000,000 to \$20,000,000, which will then increase the deficit from \$165,000,000 to \$178,000,000 or \$185,000,000. I am wondering—and I am asking for information—what suggestion the Senator from Tennessee would make as to the means to be employed in order to meet that deficit?

Mr. McKELLAR. I will take great pleasure in answering the Senator. The first thing I would propose would be that a law be passed repealing the act by which there are given to the great shipping interests of the country, through the Postmaster General, a great many million dollars every year that are charged up to the Post Office Department. That expenditure ought not to be charged up to the Post Office Department. We are subsidizing, through the Post Office Department, the great shipping interests of the country, and some of the ships concerned are owned by foreigners.

Mr. NORRIS. Mr. President—

Mr. McKELLAR. I yield to the Senator from Nebraska.

Mr. NORRIS. I should like for the Senator while he is on the subject, if he has the figures at hand—and I think he has given them heretofore, but it would be well to put them in the Record at this point—say just how much of a subsidy we are paying to the various ship companies on the various mail contracts.

Mr. McKELLAR. Heaven itself only knows.

Mr. NORRIS. What assurance has the Senator that Heaven knows?

Mr. McKELLAR. I have none. The truth of the matter—

Mr. MOSES. Mr. President—

Mr. McKELLAR. Just a moment. The truth of the matter is that the Postmaster General is making these contracts and binding the Government for 10 years. I have undertaken to have an expert

examine into the contracts, but the expert is not able to tell for how much the Government is going to be obligated each and every year for the next 10 years on account of these shipping contracts.

* * * * *

Mr. McKELLAR. Mr. President, it is a fact that Mr. Nicolson, who is a very great expert, has gone into this matter very carefully, and some of the facts which he submits, and which have not been denied, and can not be denied, show a perfectly astounding situation. For instance, the Shipping Board is shown to have sold a ship to a company for, say, \$40,000, and then immediately entered into a mail contract by which it would pay to that very company sometimes \$120,000, sometimes \$300,000, several times more than the ship cost, probably making a very fine return for the shipowners who got it.

Mr. NORRIS. Mr. President—

Mr. McKELLAR. If the Senator will let me finish, the Postmaster General has to pay these subsidies; and surely the poor people of the country who use the parcel post ought not to be required, through taxation—because that is what it means—to have their parcels taxed for the purpose of paying these great ship bounties and ship subsidies.

* * * * *

Mr. MOSES. Mr. President, this testimony is all ex parte. If the investigation which the Senator from Tennessee is seeking, and with which I will cooperate, can be brought about, we will find out all of these things. This, however, is going far afield from the question of asking the Postmaster General not to press his demand for additional rates on parcel post.

Mr. NORRIS. I should like to say, in answer to the suggestion made by the Senator from Tennessee, that I do not think it is going far afield. Something of this kind must be called to the attention of the Senate and the country, or the Postmaster General, who is carrying out the law of Congress in giving these enormous subsidies to other branches of the Post Office Department, will carry out his intention of picking out the parcel post as one that he is going to put out of business without doing anything to interfere with the subsidies in all these other lines that go away beyond the subsidy that comes to the parcel post.

So far as I know, no move has been made to prevent the carrying out of these subsidies. I think the law was bad when it was passed; but we have the law, and the Postmaster General is carrying it out. Unless, however, the Senator from Tennessee or some other Senator calls attention to these enormous subsidies that are being paid to the millionaire shipowners, we shall not be able to have anything done here to save the poor people who have to patronize the parcel post.

If the Senator will permit me just a word more—

Mr. McKELLAR. Yes; I yield.

Mr. NORRIS. I remember when this law was passed, giving to the Postmaster General the authority that he is now trying to exercise. On the floor of the Senate I called attention then to what would happen some day if we passed that law; and it is here now. I called attention then to the fact that there would come a time when some Postmaster General would undertake to interfere with the

parcel-post business in the very way that this law gives him the authority to do, and at the time I was laughed at.

Mr. McKELLAR. No; the Senator was not laughed at; but I will tell him what happened. I was one of those on the floor at the time, and I took part in the colloquy. The Senator from New Hampshire [Mr. Moses] was another; and this is what happened:

The Senator did take that position at that time, and very properly so; but up to that time, which I think was in 1927, no Postmaster General had done anything except to make some slight corrections in measurements of receptacles, and things of that sort; some small matter. Both the Senator from New Hampshire and I took the position that that was all that the measure was intended to do; that it was not intended in any way to confer upon the Postmaster General or the Interstate Commerce Commission power to increase the rates generally.

Mr. MOSES. No; Mr. President.

Mr. McKELLAR. I know I did, and I thought the Senator from New Hampshire did.

Mr. MOSES. No; I did not go that far——

Mr. McKELLAR. If the Senator did not go that far, I take his word for it.

* * * * *

Mr. FLETCHER. Mr. President, in the discussion of this matter the remarks this morning went very much afield, perhaps, particularly when the subject of postal contracts was alluded to by the Senator from Nebraska [Mr. Norris], the Senator from Alabama [Mr. Black], and the Senator from Utah [Mr. King]. We had quite a discussion of that subject on December 20, and having had some part in it then, I feel like saying something at this time by way of attempting to be fair and just to the Post Office Department and the Postmaster General and all concerned, and laying some more facts in that connection before the Senate.

I have full confidence in Mr. Nicolson's article published as a Senate document. I think it is substantially correct. There has been an attempt to meet it by a statement from one of the commissioners published in the CONGRESSIONAL RECORD, and he has replied very explicitly, as will be found on page 4490 of the RECORD of February 9. I would invite the attention of Senators to Mr. Nicolson's article inserted in the RECORD at that time by the Senator from Tennessee [Mr. McKellar].

One of the points made on the 20th of December was that the Shipping Board had sacrificed ships at almost nominal prices without requiring any replacement, and that without any condition it had made contracts that the lines were to be operated for five years, or something like that, without requiring any replacement whatever. I understand the present Postmaster General has made no contract at this time, under the authority of the merchant marine act of 1928, which does not require replacement and other vessels to be built by the lines holding postal contracts.

I have here a statement showing the awards under the provisions of the merchant marine act of 1928 for carrying foreign mails. It is noted that this statement shows the number and estimated cost of new vessels required, vessels required conditionally, and remodeling

or reconstruction of vessels required. The estimated cost of these requirements is as follows:

New vessels required \$230,947,365; vessels required conditionally, \$40,750,000; reconstruction, \$14,700,644, being a total of \$286,398,009 of new construction required by reason of postal contracts and the aid furnished to shipbuilders and ship operators in connection with these postal contracts.

Mr. KING. Mr. President, will the Senator from Florida yield to me in order that I may ask a question for information?

The PRESIDING OFFICER. Does the Senator from Florida yield to the Senator from Utah?

Mr. FLETCHER. I yield.

Mr. KING. I did not hear the beginning of the statement made by the Senator. Does the Senator state that contracts are now in esse which do not require the construction of new ships?

Mr. FLETCHER. Oh, yes; sales of ships were made without requiring any reconstruction, and the lines that purchased the ships were awarded mail contracts without any requirement of reconstruction. That is one thing we criticized on December 20.

Mr. KING. Contracts have been entered into and subsidies granted, for instance, to the Dollar Line. That line will have received in 10 years subsidies amounting to between forty-five and fifty million dollars?

Mr. FLETCHER. Precisely.

Mr. KING. Those subsidies are given to a line under contracts, according to which no new ships are to be constructed?

Mr. FLETCHER. That is quite true; but, as I have said, I want to be fair, and my understanding is and my information is that the present Postmaster General has awarded no mail contracts which did not require both new construction and reconditioning. In other words, the department has got away from the practice that was indulged in for some years, and in many instances where, under contracts awarded by the previous administration, no construction was specifically required, contractors have actually built new vessels and remodeled old vessels. That is the present situation, as I understand.

REFERENCES TO THE NEW DOLLAR VESSELS

Mr. COPELAND. Mr. President, will the Senator from Florida yield to me?

Mr. FLETCHER. I yield to the Senator from New York.

Mr. COPELAND. I do not think the statement made by the Senator from Utah [Mr. King] is quite fair. As to the Dollar Line, I know I had an invitation in my mail a day or two ago to attend the launching of another large ship, the second one within a very short time, and, as I understand, they are spending a million dollars in the building of ships.

Mr. FLETCHER. That may be in pursuance of a new contract, I will say to the Senator.

Mr. KING. Mr. President, may I say to the Senator there are three contracts between the Dollar Line and the Government, and under the first two contracts the Dollar Line is receiving \$27,000,000 in subsidies? I have a statement from Mr. Nicolson, which I have compared with the data I have, and if the Senator will allow me, I should like to refer to it.

Mr. FLETCHER. I yield to the Senator from Utah.

Mr. KING. In his letter Mr. Nicolson criticizes Mr. Plummer's attempt to discredit his statement.

In the attempt to discredit the Senate document in its reference to two contracts given the Robert Dollars for their two lines to Manila (under which they will receive \$27,000,000, and yet neither contract requires the building of a single vessel), the commission says the fact is they are building two fine, large vessels, meaning, of course, they are doing so incident to these contracts the Senate document criticized; and he applies the \$27,000,000 to the construction—handicap the owners suffer—in respect to these vessels, which handicap he puts at \$9,000,000, wanting to justify the \$27,000,000 to that extent.

The vice chairman—

Speaking of Mr. Plummer, who attempted to criticize Mr. Nicolson and to discredit his statement—

The vice chairman fails to mention that the two vessels are being built for the postal route (the round-the-world service) covered by a third contract, which contract is not mentioned at all in the criticism of the Senate document.

That is the document which was presented written by Mr. Nicolson.

Mr. FLETCHER. That is what I supposed; that was my impression.

Mr. KING. Mr. Nicolson continues:

Under this third contract the Dollars are receiving \$14,000,000 more in addition to the \$27,000,000 paid under the two contracts criticized. Of course, that \$9,000,000 handicap for the two vessels they are now building are chargeable to this \$14,000,000 subsidy, thus leaving the \$27,000,000 untouched and payable under two contracts which, we repeat, do not require any new vessels to be built, thus leaving the Senate document intact and true.

Mr. FLETCHER. I understood that to be the situation, and, as I have stated, the practice followed some time ago was to let these contracts without requiring new vessels to be constructed; but I understand the present Postmaster General does not follow that practice.

Mr. COPELAND. Mr. President, will the Senator yield?

Mr. FLETCHER. Mr. President, I do not want to take the time of the Senate when we have under consideration the appropriation bill, but I will yield if the Senator from New York will not take much time.

Mr. COPELAND. I merely want to say that the Postmaster General, in my opinion, has been acting in good faith in administering this law. It is true, as the Senator from Florida has stated, that certain lines which have not had building contracts in the past have been given these mail subsidies, but under the policy now being followed by the Postmaster General, where contracts are given in the form of mail subsidies there must be a building program associated with them.

Mr. FLETCHER. Yes; I have stated what the attitude is, as I understand it.

Now, Mr. President, I offer for the Record a list of the contracts let under the merchant marine act of 1928 and ask to have them printed.

The VICE PRESIDENT. Without objection, the list will be printed in the Record.

The list is as follows:

Contracts let under the merchant marine act, 1928

Route	Class of vessels primarily required	Construction of vessels required			Construction of vessels required conditionally			Reconstruction of vessels required			Number of voyages a year	Approximate mail pay for the fiscal year 1931
		Number of vessels and class	Approximate tonnage	Estimated cost	Number of vessels and class	Approximate tonnage	Estimated cost	Number of vessels and class	Approximate tonnage	Estimated cost		
4. New York to Buenos Aires; Munson Steamship Line.	3-----										26	\$1,253,200.00
5. New York to Mediterranean and Black Sea; Export Steamship Corporation.	6-----	6, class 5----	54,000	\$13,800,000	2, class 5----	18,000	\$4,600,000				132	1,766,377.50
6. New York to Capetown and Beira; American South African Line (Inc.).	6-----	2, class 5----	16,494	3,900,000							12	273,108.00
8. New York to Valparaiso; Grace Steamship Co.	5-2, class 4.	2, class 3----	18,746	7,000,000							52	1,399,616.00
10. San Juan to San Domingo; New York and Porto Rico Steamship Co.	5-----										52	45,288.00
15. Boston to Yarmouth; Eastern Steamship Lines (Inc.).	3-----										119	229,416.00
16. New York to Copenhagen, Helsinki and Leningrad; New York to Murmansk; American Scantic Line.	6-----							11, class 5----	40,669	\$2,200,000	4,012	728,699.00
17. New York to West Africa; American West African Line.	6-----							3, class 5----	15,900	900,000	20	289,845.00
18. New York to Maracaibo; Atlantic & Caribbean Steam Navigation Co.	6-2, class 5.							1, class 5----	5,300	300,000	52	385,102.00
19. New York to Puerto Colombia; Colombian Steamship Co.	6-----	2, class 4----	10,000	4,500,000	1, class 4----	5,000	2,250,000				52	264,940.00
20. New York to Habana; New York & Cuba Mail Steamship Co.	4-----	2, class 2----	22,600	10,000,000							52	721,376.00
21. New York to Vera Cruz; New York & Cuba Mail Steamship Co.	5-----							1, class 5----	6,678	\$1,300,000	52	419,536.00
22. New Orleans to Progreso; Gulf Mail Steamship Co.	6-----							do-----	3,235	75,000	36	23,618.88
23. Galveston to Santo Domingo; Lykes Bros. Steamship Co.	6-----							do-----	3,537	100,000	52	277,126.50
24. San Francisco to Sydney; Oceanic Steamship Co.	4-----	2, class 2----	40,000	17,000,000	1, class 2----	20,000	8,500,000				17	692,886.00
25. San Francisco to Manila; Dollar Steamship Co.	3-----										26	1,262,664.00
26. Seattle to Manila; Admiral Oriental Line.	3-----										26	1,070,784.00
27. San Francisco to Colombo; Dollar Steamship Co.	5-----	4, class 3----	92,000	32,000,000							26	1,141,296.00

(NOTE.—See letter, p. 53, alleging inaccuracies in this list.)

28. Portland to Manila; States Steamship Co.	6.....								2, class 5...	10, 600	600, 000	24	399, 540. 00
29. Portland to Dairen; States Steamship Co.	6.....								1, class 5...	5, 300	300, 000	12	184, 440. 00
30. Los Angeles to Auckland; Oceanic & Oriental Navigation Co.	6.....											12	169, 740. 00
31. Los Angeles to Melbourne; Oceanic & Oriental Navigation Co.	6.....											12	210, 960. 00
32. New York to Balboa; American Line Steamship Corporation.	5-2, class 3...	1, class 3...	20, 526	6, 587, 226								26	418, 496. 00
33. Savannah to Liverpool and Bremen; South Atlantic Steamship Co. of Delaware.	6.....								3, class 6...	15, 000	150, 000	36	388, 950. 00
34. San Francisco to Buenos Aires; Pacific Argentine Brazil Line (Inc.).	6.....								4, class 6...	23, 000	114, 000	18	302, 004. 00
35. New Orleans to Bahia Blanca; Mississippi Shipping Co.	6.....	2, class 5...	10, 000	3, 900, 000					4, class 5...	19, 600	300, 000	36, 52	644, 050. 00
36. Portland to Manila and Dairen; Tacoma Oriental Steamship Co.	6.....								2, class 5...	10, 000	750, 000	24	347, 679. 00
37. San Francisco to Puerto Colombia; to Habana, effective Dec. 31, 1930; Panama Mail Steamship Co.	5.....	2, class 3...	18, 000	7, 000, 000								26	465, 464. 00
38. Tacoma to Valparaiso; Grace Steamship Co.	6.....	1, class 3...	9, 000	3, 500, 000								17	270, 300. 00
39. San Francisco to Puerto Armueñas; United Fruit Co.	6.....	3, class 4...	21, 600	10, 575, 000								52	392, 860. 00
44. New York to London; United States Lines (Inc.)	5.....					2, class 3...	40, 000	14, 500, 550				52	1, 054, 092. 00
45. New Orleans to Spain; Tampa Inter-ocean Steamship Co.	6.....	2, class 5...	10, 000	3, 900, 000								32	428, 262. 50
47. New Orleans to West Africa; American West African Line.	6.....					2, class 5...	16, 494	3, 900, 000				8	128, 148. 00
48. San Francisco to Dairen; Oceanic & Oriental Navigation Co.	6.....	2, class 5...	16, 000	3, 900, 000								14, 19	264, 745. 00
San Francisco to Saigon; Oceanic & Oriental Navigation Co.	6.....	do	16, 000	3, 900, 000								17, 21	321, 040. 000
NOT IN OPERATION													
40. New York to Port Limon; United Fruit Co.	5.....	3, class 4...	21, 600	10, 575, 000								52	
41. New Orleans to Puerto Colombia; United Fruit Co.	6.....	2, class 4...	14, 400	7, 050, 000								52	
42. New York to Southampton; United States Lines (Inc.).	1.....	2, class 1...	106, 000	60, 000, 000								52	
43. New York to Hamburg; United States Lines (Inc.)	3, 4, 5.....	2, class 2...	60, 000	21, 860, 139								52	
46l. Baltimore to Hamburg; Roosevelt Steamship Co. (Inc.).	4.....					2, class 3...	24, 000	7, 000, 000	5, class 4...	41, 250	9, 220, 000	52	
Total.....		44.....	576, 966	230, 947, 365	10.....	123, 494	40, 750, 000	36.....	200, 069	14, 700, 644			18, 635, 650. 16

(NOTE.—See letter, p. 53, alleging inaccuracies in this list.)

Mr. McKellar obtained the floor.

Mr. KING. Mr. President—

The VICE PRESIDENT. Does the Senator from Tennessee yield to the Senator from Utah?

Mr. McKELLAR. I yield.

Mr. KING. I ask unanimous consent following the statement presented by the Senator from Florida to have inserted in the Record a letter which I have received from Mr. Nicolson, a paragraph from which I read a few moments ago.

The VICE PRESIDENT. Without objection, it is so ordered.

The letter referred to is as follows:

LETTER FROM MR. JOHN NICOLSON CONTAINING PRELIMINARY REPLIES TO SOME OF
MR. PLUMMER'S STATEMENTS

WASHINGTON, D. C., February 5, 1931.

Hon. WILLIAM H. KING,

United States Senate, Washington, D. C.

MY DEAR SENATOR: A reply is in preparation to the communication of Mr. E. C. Plummer, vice chairman of the United States Shipping Board, which was published in the Congressional Record for January 23, but is not yet completed I am sorry to say, for it can readily be demonstrated that the attack on the Senate Document No. 210 entitled "The Truth About the Postal Contracts" leaves that document unimpaired as a statement of the facts of the case. Under the circumstances I have prepared this letter this morning that you may have some idea of the criticisms which have been made.

Mr. Plummer's obvious purpose is to impair faith in the statement of convincing facts presented in the Senate document, and to that end a large part, if not most, of the communication is directed against its author, alleging, e. g., inconsistency on his part when the Senate document is compared with earlier declarations by me. I will not attempt, in this letter, even to point out the many instances mentioned of alleged contradictions, nor deal adequately with several I will mention only to indicate that the criticisms are inaccurate and unfair.

1. In the attempt to discredit the Senate document in its reference to two contracts given the Robert Dollars for their two lines to Manila (under which they will receive \$27,000,000 and yet neither contract requires the building of a single vessel) the commissioner says the fact is they are building two fine large vessels, meaning, of course, they are doing so incident to these contracts the Senate document criticized; and he applies the \$27,000,000 to the construction handicap the owners suffer in respect to these vessels, which handicap he puts at \$9,000,000, wanting to justify the \$27,000,000 to that extent.

The vice chairman fails to mention that the two vessels are being built for the postal route—the round-the-world service—covered by a third contract, which contract is not mentioned at all in the criticism of the Senate document. Under this third contract the Dollars are receiving \$14,000,000 more, in addition to the \$27,000,000 paid under the two contracts criticized. Of course, that \$9,000,000 handicap for the two vessels they are now building, are chargeable to this \$14,000,000 subsidy; thus leaving the \$27,000,000 untouched and payable under two contracts which we repeat do not require any new vessels to be built, thus leaving the Senate document intact and true.

2. In another instance, the commissioner quotes from the 1925 annual report, and attributes to the author an alleged recommendation, in 1926, under the 1920 act, of \$1,000,000 per annum to the Munson Line, and then says the contract under the 1928 law is only \$200,000 more. It is superfluous to say the head of a department who merely prepares the text of a report under instructions from superior officials, e. g., a commissioner of the board, as to the conclusions to be presented is not chargeable or responsible for them; the measure of his responsibility is to be ascertained from what goes on behind the scenes, e. g., the 1927 annual report mentions a contract under the 1920 act, to the Grace Line, and that \$2.25 per mile had been recommended; I probably prepared the text of that statement, and would have, even had \$3 been mentioned. The report does not reveal that the commissioner was told the company's own statements showed

they were earning dividends, and certainly were not entitled to much subsidy, if any. He nevertheless directed \$3 per mile for this rate, the maximum ever granted under the old law. I ardently protested—even to the point of delaying administrative action until later, then renewing the subject, and the commissioner came down to \$2.25. Yet, notwithstanding the earnings of the company the amount was increased under the 1928 law to \$4 per mile.

The fact is, the amount recommended by the board in the Munson case was \$3 per mile or \$490,000 per annum; and yet under the 1928 law, this was increased to \$8 per mile, or \$1,300,000 annually—i. e., \$810,000 more annually—and not merely \$200,000. So the Munsons will get \$13,000,000 and yet are not required to build even one new vessel.

Any statement that the writer at any time or in any form ever recommended \$1,000,000, actually or approximately, be paid the Munsons, either under the 1920 act or the 1928 law, is a very inaccurate statement of fact; he did not.

3. The commissioner comments on the criticisms made by the Senate document (p. 17) of the two contracts awarded the Oceanic & Oriental Navigation Co., and also based on an erroneous statement that these lines are building "three magnificent ships"—notwithstanding the two contracts do not require them to build any. They are doing nothing of the kind. The commissioner is mistaken. He probably has this line, the Oceanic & Oriental Navigation Co., confused with the Oceanic Steamship Co., which also has a postal contract, one under which it will receive nearly \$10,000,000, and this contract does require the building of new vessels—and they are being built. What has that got to do with the criticisms made by the Senate document of the two contracts in fact criticized? Yet the commissioner says, "Why does he—the author—leave the impression no such facts exist?" The answer is simple: The facts do not exist. The Senate document is accurate and true.

4. The commissioner refers to the great advance during the past 10 years in the propulsion machinery of ocean vessels; a fact which makes more surprising the unfortunate omission from many of these contracts of any requirement for new vessels—to have the subsidies keep the American merchant marine abreast of the times. Further seeking to impair faith in the Senate document, he says the author "ought to have known, and if he did not he never should have attempted to comment on these mail contracts; that the advent of the Diesel engine has caused such a development in the efficiency of steam propulsion that the machinery of any steamer built 10 or more years ago is to-day obsolete."

The author knew it, and Senate Document No. 210 reveals he knew it; for it states (p. 12) in criticizing the failure to require replacements that, apart from the exhaustion of the old vessels from age, there remained the fact "they will probably have become obsolete for competition in foreign trade, so rapid has been the movement in recent years for new types of vessels, both in speed, capacity, and general efficiency—especially in the development of Diesel engines."

Hence, in this respect also, the Senate document is not found wanting. The failure to give recognition to this well-known fact in the shipping world is one of the reasons—but one only—why The Truth About the Postal Contracts was written.

5. The vice chairman quotes an attitude and opinion from the 1926 annual report and attributes them to the author. He overlooks entirely, however, that the provisions of law on which they were based, and which is even quoted in the opinion, was repealed by the 1928 act; furthermore, that the Senate document points out the serious consequences of its having been repealed. Thus to compare views expressed under very different provisions of law is not exactly fair criticism.

The many new statements of facts in the commissioner's communication are challenged, and I gladly assume responsibility for proving the substantial accuracy of the statements and criticisms in the Senate document.

Very respectfully,

JOHN NICOLSON.

* * * * *

Mr. NORRIS. Mr. President, while the resolution as modified has been adopted, I want to call attention in answer to some of the statements which have been made here as to new vessels being

constructed that the subsidies which the shipping interests are getting from the Government have as yet not all been referred to. For instance, when it is said that the law requires the building of new ships, nothing is said about the fact that practically the new ships are built with Government money. The shipping companies borrow money from the Government of the United States at a very low rate. For instance, within the last year loans of Government money have been made to some of the shipping concerns on 20 years' time at less than 2 per cent interest.

Mr. McKELLAR. At $1\frac{1}{8}$ per cent.

Mr. NORRIS. I think the rate was $1\frac{7}{8}$, was it not?

Mr. McKELLAR. I think the Senator is correct; it was 1.8 per cent.

Mr. NORRIS. Yes; 1.8 per cent. At least, less than 2 per cent.

Mr. JONES. Mr. President, will the Senator yield?

The VICE PRESIDENT. Does the Senator from Nebraska yield to the Senator from Washington?

Mr. NORRIS. I yield.

Mr. JONES. My recollection is that we have corrected that condition by subsequent legislation providing a rate of not less, I think, than—

Mr. McKELLAR. Not less than $3\frac{1}{2}$ per cent, as I recall.

Mr. JONES. Yes; something like that.

Mr. NORRIS. It is probably true that in the future the rate is going to be $3\frac{1}{2}$ per cent; but I remember of one particular loan made a few months ago of a million dollars at less than 2 per cent interest on 20 years time. Almost anybody could do business if he had that kind of money.

Mr. McKELLAR. Yes, Mr. President, and if the Senator will yield—

Mr. NORRIS. I yield.

Mr. McKELLAR. In the appropriation bill for independent offices this year there is provided \$35,000,000 more to be loaned the shipping interests on these very liberal terms.

Mr. NORRIS. I want to call attention also, Mr. President, to the argument made by the Senator from Colorado [Mr. Phipps]. I am not finding fault with what the Senator said. As I understand the circumstances, he stated them correctly but he probably misapprehends and I am afraid that some other Senators here misapprehend the object of a few of us in calling attention to the resolution in the effort to prevent the Postmaster General from pursuing a course that it is admitted he had a right to pursue under the law. There is no criticism, so far as I know, from anyone of us of the Interstate Commerce Commission. The Senator says they are peculiarly equipped properly to investigate matters of this kind and I agree with him as to that; I think that is absolutely correct; but here are the facts: The Post Office Department is running behind a good many million dollars every year. That has been true practically every year in our history. One of the particular branches of the Post Office Department that causes a deficit every year is the parcels post; but, as the Senator from Tennessee has shown, the facts are that the deficit growing from the parcel post in the last fiscal year was about \$5,000,000 less than it was for the preceding fiscal year; so that the parcel-post business is showing a tendency to pay its own way, and it is a poor time to start to increase rates.

If the Interstate Commerce Commission makes an investigation and wants to establish rates that would prevent a deficit, I think it would follow that they would have to increase the rates. I am not doubting but what they would, and I would not criticize them if they did.

Mr. McKELLAR. Mr. President—

The VICE PRESIDENT. Does the Senator from Nebraska yield to the Senator from Tennessee?

Mr. NORRIS. In a moment. However, the parcel post is not the only postal business which is causing a deficit; other branches of the Postal Service are causing deficits; they have been referred to; but nobody proposes to increase the rates on other classes of mail matter; nobody proposes to interfere with the deficits along any other line except as to the parcel post. I submit that is not fair. I submit that it has been shown here that some of the very large items that go to make up this deficit—and I would be glad if it did not exist, but it is there—are the subsidies which are paid to shipowners and large shipping corporations, not only for carrying the mails but for building new ships.

* * * * *

Mr. NORRIS. Do you realize that, Senators? Some of these poor political outcasts years ago called attention to the fact that that very condition would exist if we passed the law under which the Postmaster General is now attempting to operate. It applies to nothing else. He has not authority to reduce or increase the rate on letters or on any other branch except the parcels post. It is a peculiar thing, it seems to me, that after that law has been passed, when in my poor, weak way I called attention to the danger that was lurking in it to parcels post on the day we passed it, now we are confronted with the argument on the part of Senators, "The Postmaster General is operating under the law. What business is it of ours!" they say. When we passed the law, however, when attention was called to the fact that that very thing would happen, they said, as the Senator from Tennessee has narrated to-day, "Why, it will never be called into effect in that way. It will just correct some little discrepancies that may creep into the service. There never will be an attempt made by a Postmaster General to increase these rates as a whole."

So the law went through. Now we are confronted with the result of it. This is the only case where the Postmaster General has authority under the law to reduce or to increase rates in the Post Office Department without first coming to Congress; and now we are reminded, "Why this is the law. It is not any of our business. He will not pay any attention to our request if we ask him to desist until we can investigate the matter. He will disregard our request."

Maybe he will. He can, under the law, I concede. He does not have to pay any attention to the resolution we have just passed. I think he will, however. I think he is a gentleman and will be courteous enough to respect the wish of one of the legislative bodies, which has expressed a desire to investigate before these rates are increased. I think the request will be effective, but we are reminded to-day that we are helpless because of the law that was put over on us under a sort of false pretense. Now we are reminded of it in the name of the express companies of the United States.

Mr. BLACK. Mr. President, will the Senator yield to me?

Mr. NORRIS. I yield to the Senator from Alabama.

Mr. BLACK. The Senator referred a few moments ago to the shipping line which carried \$3 worth of mail and obtained \$102,000 from the Post Office Department.

Mr. NORRIS. Yes.

Mr. BLACK. I desire to call the Senator's attention to the fact that that shipping line carried that mail on vessels bought from the Government. It cost the Government \$15,084,000 to build those vessels. They were sold to the line which is receiving the subsidy for \$396,285. So the Senator will note that the cost to the Government was over \$15,000,000 and the cost to the shipping company for these subsidized lines was \$396,000. I call the Senator's attention further to the fact that the total cost of all these subsidized vessels to the Government was \$258,000,000, but the subsidized companies purchased them for \$23,000,000. So the Senator has not referred in his remarks to that branch of the subsidy.

Mr. NORRIS. I thank the Senator for his contribution, and I am wondering if he has not omitted one other item. When the companies bought these ships, did they pay for them in cash or on time?

Mr. BLACK. My understanding is that they were all purchased on time.

Mr. NORRIS. And at what rate of interest?

Mr. BLACK. The money for the first payment was advanced by the Government itself through loans.

Mr. NORRIS. Yes. They got more out of the subsidy than they were required to pay on the ships; and the deferred payments, I presume, are drawing interest at all the way from 1 and a fraction per cent up, perhaps to 3 or 3½ per cent.

Mr. McKELLAR. Mr. President, will the Senator yield?

Mr. NORRIS. I yield to the Senator from Tennessee.

Mr. McKELLAR. I desire to call attention to another matter that the Senator brought up a few moments ago, and that is about the interest rate on funds loaned to these shipping companies.

To show how differently one class of our citizens are treated than another, I want to read from the Federal Farm Board act, page 5, section 8:

(a) Loans to any cooperative association or stabilization corporation and advances for insurance purposes shall bear interest at a rate of interest per annum equal to the lowest rate of yield (to the nearest one-eighth of 1 per cent) of any Government obligation bearing a date of issue subsequent to April 6, 1917 (except postal-savings bonds), and outstanding at the time the loan agreement is entered into or the advance is made by the board, as certified by the Secretary of the Treasury to the board upon its request.

That much of it is exactly the same provision under which the shipping companies have been borrowing money for the last six or eight years. It was changed recently by the act introduced by the Senator from Michigan [Mr. Vandenberg]. The Senator, however, will notice this particular proviso in the Federal Farm Board act:

Provided, That in no case shall the rate exceed 4 per cent per annum on the unpaid principal.

* * * * *

Mr. COPELAND. Mr. President, will the Senator yield?

Mr. NORRIS. I yield.

Mr. COPELAND. I am wholly in sympathy with what the Senator says about the parcel post. It has accomplished work for our country which can not be measured in money, I am sure. But I always do resent, in a proper way, the reflections upon the shipping interests.

Mr. NORRIS. Mr. President, we are only calling attention to the matter by way of comparison. I do not agree with the Senator on the subsidies paid to the shipping interests. I was opposed to the law and voted against it; but at the present time no argument is being made for the repeal of that law. We are simply calling attention to the fact that these subsidies which exist in favor of the large shipping interests are not intended to be interfered with, and that the attack is being started to get rid of subsidy in one place where it seems to me they ought to let it alone.

Mr. COPELAND. I agree with the Senator. I think that is right.

Mr. NORRIS. It is only a matter of comparison, as far as that is concerned.

CHAPTER 6

OCEAN MAIL CONTRACTS

REMARKS OF HON. DUNCAN U. FLETCHER, OF FLORIDA, IN THE
SENATE OF THE UNITED STATES, THURSDAY, FEBRUARY 26
(LEGISLATIVE DAY OF TUESDAY, FEBRUARY 17), 1931

A LETTER FROM JOHN NICOLSON RELATIVE TO TABULATION ON PAGE 46

Mr. FLETCHER. Mr. President, I ask permission to have inserted in the body of the Record, because it replies to some data I had inserted a few days ago with reference to postal or ocean mail contracts, a letter from Mr. John Nicolson.

The PRESIDING OFFICER. Without objection, it is so ordered.

The letter is as follows:

OCEAN MAIL CONTRACTS

WASHINGTON, D. C., February 25, 1931.

HON. DUNCAN U. FLETCHER,

United States Senate, Washington, D. C.

MY DEAR SENATOR: I have examined the tabulation published at your instance in the Congressional Record of February 16, 1931 (p. 5158) relative to new vessels required by postal contracts under Title IV of the merchant marine act of 1928, and appreciate, of course, your requesting its insertion did not imply its accuracy, and I regret to say it is not accurate. The matter can not be gone into fully now, but I wish to reveal sufficient to justify this caution.

1. The caption of one column is, "Construction of vessels required." This means, of course, that the number of vessels appearing opposite the respective names is the number of new vessels the line is under definite contractual obligation to build pursuant to provisions in the postal contract.

2. The caption of another column is, "Construction of vessels required conditionally." This would naturally mean that the vessels there listed will have to be built upon the occurrence of some prescribed event or condition, including possibly the mere demand of the Postmaster General.

The listings under both captions are incorrect, notwithstanding they were, of course, prepared in good faith.

I. AS TO VESSELS REQUIRED DEFINITELY TO BE BUILT

As previously stated, we can not now analyze all the items, but submit the following:

1. American Line Steamship Corporation, route 32, New York to Balboa, Canal Zone.—The published list credits this postal contract with bringing into existence one class 3 vessel, approximate tonnage 20,526; estimated cost, \$6,587,226. This postal contract is not entitled to a scintilla of credit for the building of this vessel. It would have been built had there been no such postal contract. It was in fact being constructed long before the postal contract was obtained and a definite intent to build it existed two or more years before the 1928 law was enacted, for it is one of a group of three vessels, the *Virginia*, the *California*, and the *Pennsylvania*, determined upon by the Franklin interests prior to 1927, for the development of a fine passenger service in inter-coastal trade. The *Virginia* and *California* had been completed, and the *Pennsylvania* was the third—and is the vessel referred to in the published list.

The construction-loan agreement for this vessel is dated October 7, 1923, though as a matter of fact the loan was informally assured several months before—the writer conducted the negotiations and arranged the agreement.

The postal contract, however, bears date December 19, 1928—nearly three months subsequent to the execution of the formal loan agreement; and the contract for the construction of the vessel preceded the date of the loan agreement.

We repeat, as a fact definitely within our knowledge, neither the obtaining of the postal contract nor the enactment of the 1928 law caused the vessel to be built.

2. The Grace group: We include in this group the postal contracts awarded the Grace Steamship Co., and the Panama Mail Steamship Co. According to the list in the Record, the three contracts to these lines require, in all, five class 3 vessels, whereas we will now show the building of two only will meet the contractual obligations for new vessels. The three contracts involved are as follows:

(a) Route No. 8: To the Grace Steamship Co.; New York to Valparaiso, Chile, and according to this list two class 3 vessels are to be built at an estimated cost of \$7,000,000.

(b) Route 38: Also to the Grace Steamship Co.; Tacoma to Valparaiso, Chile, and according to this list one class 3 vessel is to be built, at an estimated cost of \$3,500,000.

(c) Route 37: To the Panama Mail Steamship Co.; San Francisco to Habana, Cuba, also owned by the Graces; and according to this list two class 3 vessels are to be built at an estimated cost of \$7,000,000.

It will thus be observed that, according to this list, five new class 3 vessels are the product of these three postal contracts. This is not a fact.

Whether Grace will ultimately build five class 3 vessels is not the question. We are concerned in what the Government can demand as of right, in return for the multiple-millions it is paying these three lines; and because the several contracts contain shifting of tonnage privileges, we must treat them for present purposes as a consolidated unit.

1. Route No. 8: Neither the original contract nor the supplement thereto, nor the two together, require the building of two class 3; one only is required. The statement in the list that two are required is a plain error.

2. Route No. 37: This contract also requires, apparently, the construction of two class 3 vessels; and it would seem therefore that this contract and the route 8 contract, next above mentioned, would, under contractual obligation, produce three new class 3 vessels; but no such obligation is imposed. Here are the facts, revealed in the contracts themselves:

The requirement of the route 8 contract that the vessel shall be built gives the contractor the right, in unequivocal terms, to operate it "on any American trade route." One would have supposed it was being built for the route (No. 8) to which the contract related. But not so. Obviously it may, without the consent of the Postmaster General, and as an affirmative right in the contractor, be withdrawn from route No. 8 and operated "on any American trade route"; therefore, on route 37; and, indeed, the contract expressly states it may be transferred to and operated on route No. 37.

The contract for route 37, on the other hand, after purporting to require the building of two new class 3 vessels, expressly states the requirement may be met

by using a class 3 vessel built under a contract for some other postal route provided the other contract permits this transfer; and we have seen the other contract does permit it.

The requirements of these two agreements, therefore, with respect to new class 3 vessels, can be met with two such new vessels, this quite apart from and without any concurrence by the Postmaster General.

Now, as to route 38. While the language of the contract is not that a new class 3 vessel shall be built, but shall be "substituted," we will assume for present purposes the construction of a new vessel was intended and is required. What then? Must it be operated between Tacoma and Chile? Not at all, necessarily. The contract expressly states, as an alternative, that the contractor may "provide for the operation of the said vessel and cause the same to be operated in some other ocean mail service." Please observe the care with which this provision is framed. It is not limited to use by the contractor on some other ocean mail route; the contractor can "provide" for its operation on some other route; hence this coordinates with the fact that route No. 37 is operated by a different corporation, the Panama Mail Steamship Co. (also owned by the Graces).

We thus find that the two class 3 vessels required by the contract with the Panama Mail Steamship Co. for route 37, between San Francisco and Habana, can be met by transferring, as an affirmative contractual right and without the consent of the Postmaster General, the one class 3 vessel built for route 8 and the one class 3 vessel built for route 38, the requirements of these routes being met with other vessels, not necessarily class 3, and certainly not necessarily new class 3 vessels.

The net result, therefore, is that there are contractual requirements for only two class 3 vessels, instead of 5, as stated on the list. This conclusion is not the result of special pleading or close distinctions in the meaning of words; it is the result of succinct and unambiguous provisions in the agreements themselves, splendidly coordinated from the point of view of the contractor.

II. AS TO CONSTRUCTION OF VESSELS REQUIRED CONDITIONALLY

With these, also, we will not undertake to analyze all, but submit the following:

1. The Oceanic Steamship Co.: Route No. 24—San Francisco to Australia. The list indicates that (in addition to two new vessels definitely required) a third vessel is conditionally required. This is not so. A third vessel is not required. Whether it shall be built depends on whether the parties mutually agree that it shall be built; that is, the contractor does not have to do it unless he wants to. That is not a contractual obligation.

2. United States Lines: Route No. 44—New York to London. The list indicates this contract requires, conditionally, the construction of two new class 3 vessels; approximate tonnage, 40,000; estimated cost, \$14,500,000. This looks well in print, but what are the facts concerning what the contract really requires?

This contract is only for five years; but it provides, in substance, that at the end of five years the contractor (not the Postmaster General) may elect to extend it another five years; nor will this extension, to be effective, apparently, be dependent on the Postmaster General's concurrence; it refers to the extension as "automatic."

If, however, the contract is thus "automatically extended," the contractor must "put into operation on the route" two 18-knot, class 3 vessels; if he does not want to do this he does not have to, he simply need not serve the required notice extending the contract.

However, even if the contract is "automatically extended" to 10 years by the contractor, his obligation to operate two class 3 vessels on the route does not require him to add new vessels; the contract very clearly provides he may, in the alternative, operate old vessels of like class—properly reconditioned, of course.

Hence we have another contract, dated March 1, 1930, not referred to in the Senate document at all, and under it the contractor can collect subsidies approximating \$12,000,000, and yet without requiring the construction of a single new vessel. This is not one of the "early contracts."

3. The Roosevelt Steamship Co.: Route No. 46—Baltimore to Hamburg. The list states this contract conditionally requires two new vessels, class 3, 24,000 tons; estimated cost, \$7,000,000. This is not correct. What are the facts?

The initial fleet with which the contract is performed is of old, though reconstructed, Shipping Board vessels, class 4. For these vessels the contractor is to receive mileage "compensation" evidently fixed at so high as \$6, so that the subsidy will yield in five years a substantial part of the cost of building two new class 3 vessels, which the Postmaster General may, after five years from the commencement of the contract, require. That the scale of "compensation" for the first five years has been fixed on this basis is clearly demonstrated by another provision of the contract, that if the Postmaster General does not require these two new vessels to be built, then, after the expiration of the first five years the Postmaster General may reduce the rate for the rest of the term of the contract.

While a subsidy should never be large enough to constitute a contribution to capital investment, nevertheless this has been violated in many of the contracts, and the rate for the first five years above is evidently another violation of it. This is so even if the vessels are built. But we have the remarkable situation that the Government's contribution for the construction of the vessels goes for naught—if the Postmaster General in power five years hence elects not to require the two new vessels.

We predict that the then Postmaster General, acting, of course, in entire good faith, may gladly avail himself of the clause that the contract may be canceled at the end of five years by mutual agreement; we predict the contractor will gladly concur to escape the liability for building the two new vessels, having gotten the cream from the transaction in the high mileage of the first five years. The attitude of the then Postmaster General may very probably be that his problem relates solely to the requirements of the Mail Service. This attitude would be justified by the text of the 1928 law, whereas it would not have been, under section 24 of the 1920 law, which provided that such contract should apply compensation for " * * * the development of a merchant marine adequate * * *," etc.—a vital clause which was expressly repealed by the 1928 act.

There are others to which we would like to refer, but time does not permit; nor is it expedient to make this letter too long. We are quite sure we have indicated sufficient to reveal to you that the underlying facts should be examined into in order to ascertain what the requirements really are.

Very respectfully.

JOHN NICOLSON.

CHAPTER 7

GOVERNMENT LOANS FOR SHIPBUILDING

REMARKS OF HON. C. C. DILL, OF WASHINGTON, IN THE SENATE OF THE UNITED STATES, SATURDAY, FEBRUARY 14 (LEGISLATIVE DAY OF MONDAY, JANUARY 26), 1931

AN ARTICLE ENTITLED "THE WEST COAST CAN BUILD SHIPS"

Mr. DILL. Mr. President, I have here an article entitled "The West Coast Can Build Ships," published in the Log, a West coast magazine devoted to marine engineering. The article goes into some detail showing how all of the money being loaned by the Government to build ships is being loaned to shipyards on the Atlantic coast. I ask unanimous consent to have the article printed in the Appendix of the Record.

There being no objection, the article was ordered to be printed in the Record, as follows:

[From the Log, February, 1931]

THE WEST COAST CAN BUILD SHIPS—PACIFIC SHIPYARDS HAVE PROVED THEIR ABILITY IN THE PAST, BUT THEY ARE GETTING NO SHARE OF THE CONSTRUCTION CONTRACTS AWARDED TO-DAY

(By Robert McAlpin)

In the two years since the Jones-White bill became a law, contracts totaling about \$140,000,000 have been awarded to private shipyards for the construction of 41 modern merchant vessels. Government loans provided for in the act are responsible for this tremendous impetus to shipbuilding in the United States. The benefits of this provision for the rebuilding of the American merchant marine are far-reaching, but they fall about 3,000 miles short of reaching far enough. They fail to extend to the western seaboard. The Pacific coast ship-building plants are still waiting for some crumbs from this rich feast.

Certainly the sponsors of this act, which was designed to create new merchant vessels in American yards, had no thought of discrimination; one of the authors of the bill, Senator Jones, is from the west coast; the shipping interests of the far West stood solidly behind this legislation. The first thought was a merchant marine built in America and owned by Americans; no provisions were made for the small differential in cost which would enable the west coast to compete with the east coast in the construction program. Because of this, not one dollar of this ship-construction money has gone to a Pacific coast shipyard.

Capt. C. A. McAllister, president of the American Bureau of Shipping, has summed up this situation fairly and sensibly in the bulletin of his organization. He says, in part: "In the building of new ships all the contracts thus far awarded have gone to the eastern shipyards. On the Pacific coast there are at least five great yards still in existence and hundreds of skilled men available who need this kind of employment. The Pacific coast yards did marvelous work during the great ship-construction period incident to the late war. In rapidity of construction and in excellence of output they ranked with the best yards elsewhere in the country.

"Up to now not a dollar of the money for new ships built under the provisions of the Jones-White law has been awarded that section of the country. This is not just, and the eastern shipbuilders so agree, but economic conditions are such that under present laws it can not be otherwise. While the Pacific coast has excellent mechanics and a wonderful climate, they must get the bulk of the material from the East, and the cost of transportation of this material thus far has formed an insurmountable barrier to their being awarded contracts."

He proceeds to offer a suggestion for correcting this condition: "There seems to be a very simple remedy for this state of affairs. Those of us who can remember the conditions under which battleships and cruisers were constructed on the Pacific coast will recall that Congress in the naval appropriation bill each year allowed a small differential of cost to Pacific coast yards in order that they might overcome the freight rates on the material which they had to purchase in the East and Middle West. From the bids recently received, it would appear that a differential of but 2½ to 3 per cent of the cost of the ship would enable the Pacific coast yards to receive some of these contracts, and it is earnestly suggested that in order to right this apparent discrimination against Pacific coast yards that the Representatives from that region take action in Congress to relieve this unfortunate condition.

"Our merchant marine can not afford to have these highly efficient shipyards and personnel go into disuse, and in addition the people of the Pacific coast are entitled to their proportionate share of the benefits of the Jones-White act."

And as this article is being written word comes that action has been taken. On January 26, Representative Welch, of San Francisco, and Representative Carter, of Oakland, opened a campaign in Congress to "relieve this unfortunate condition."

Welch announced in his speech on the floor that he would offer an amendment to the Shipping Board appropriation bill which would specify that 40 per cent of the money loaned for the building of ships hereafter must be assigned to ships to be built on the Pacific coast. Such an amendment, of course, will run into plenty of opposition, but it is expected that during the ensuing debate many facts showing discrimination in the past will be made clear.

Owing to this discrimination, he said, Pacific coast shipyards are idle. Work is at a standstill and shipbuilding in California, Oregon, and Washington threatens to become a lost art.

Representative Carter followed with a speech in which he stated that he would offer an amendment specifying that all vessels built under the ship loan act shall be let to the lowest responsible bidder. This amendment is aimed particularly at the treatment accorded the General Engineering & Dry Dock Co., of Oakland and San Francisco, a situation well known in marine circles. General was the low bidder by \$55,000 and three months' time on the vessel for the Red D Line, in spite of geographical location, but did not receive the contract.

Something must be done to equalize matters between the two coasts if the long-established shipbuilding industry of the West is to survive. Perhaps something will come of the congressional work undertaken by Representatives Welch and Carter. If any reader questions the seriousness of the problem, let him consider the figures in the following paragraph:

Of the splendid total tonnage of shipbuilding in the United States during 1930, 5.6 per cent was built by west coast yards. Of the tonnage now under construction only 1.2 per cent is being built on the Pacific coast. But as low as these figures are, they do not express the true situation with regard to the merchant marine act; neither percentage represents tonnage awarded by virtue of this act. To repeat: No contracts for merchant ships built with Government loans have been awarded on this coast since 1928, while 41 merchant ships have been contracted for on the eastern seaboard.

A stranger to the situation, studying this distribution of contracts, might think that the West lacked facilities and skill in shipbuilding. He would be wrong. The West has ample of both, as will be shown below. It is economic conditions, not lack of equipment or ability, that so far has worked against an equitable distribution of construction work between the two seaboards. Whether the barrier can be lifted remains to be seen; justice to all parts of the country demands that something be done. As Representative Welch asked in his speech at Washington: "Is it safe for us as a Nation to maintain shipyards in one small section and let the shipyards go to rack and ruin on our entire Pacific coast?"

In truth, this picture is exaggerated. Our Pacific coast shipyards have not gone to rack and ruin, although they have had a long, hard struggle. They have not closed down. They have kept their nucleus of trained men. Their building ways and shops are intact and fully equipped. These shipyards are ready for big work, the sort of work they did prior to and during the war period. Their background is the same as that of eastern yards. Let's go back a little and see what this consists of.

During 1914 the large shipyards of the United States were principally engaged in building naval vessels. From 75 to 80 per cent of the naval vessels had been built in private shipyards. The facilities of the yards were installed primarily for this work, and their technical and mechanical organizations were largely trained to design and construct such vessels. There had been no merchant shipbuilding of consequence for the foreign trade for many years. Merchant-ship construction had been confined to vessels for coastal trade and to miscellaneous small craft for sound, bay, and harbor service.

With the war, foreign vessels were withdrawn from the American trade. This gave an immediate impetus to shipbuilding in 1915 and 1916, which developed into the unprecedented shipbuilding program of 1917 and 1918. At the beginning of 1916, 22 shipyards were building naval and merchant sea-going vessels. At the end of 1918, 211 shipyards were building merchant vessels, of which 76 were building steel ships and the remainder were building wooden or concrete ships. For every person in the United States engaged in shipbuilding during 1916 there were eight so employed at the end of 1918.

It was the existence of the technical and mechanical staffs in the older shipyards, developed as described above, that made possible the great war pro-

gram of shipbuilding in the new shipyards. Trained men were available at these old plants; these men, sent to new plants, were able to meet the emergency. Such men, employed to-day in west coast shipyards to do ship repair work, should be "saved" from dropping out of the industry. And the loyal western yards that have hung on without construction contracts—the country can not afford to lose what they can offer in another national emergency. For the present-day shipyards of the Pacific coast have the men, the docks, and the equipment—now employed in repair work but ready to build ships if given the opportunity. They built good ships in the past, and can again.

The Union Iron Works at San Francisco, the first steel shipbuilding plant to be established on the Pacific coast, had been constructing naval and merchant ships since 1881. Among the products of this plant were the U. S. S. *Charleston*, *Wisconsin*, *California*, and numerous other war vessels, including many submarines and destroyers, as well as various types of war vessels for foreign governments. Perhaps the most famous of all was the *Oregon*, "bulldog of the Navy," which made the spectacular run around Cape Horn to join Admiral Sampson's fleet in time for action in the battle of Santiago.

Naturally, with highly trained personnel continuously employed, it was possible to submit attractive bids on merchant work, and many large merchant ships were built, including tankers, freighters, and the big turbine liner *Mauli*, at that time the finest passenger ship sailing between San Francisco and the Hawaiian Islands.

The second oldest established steel shipyard on the Pacific coast was the Moran plant at Seattle, which built a number of vessels for the Navy and for the merchant marine. The battleship *Nebraska* might well head the list as the outstanding bit of naval construction handled by this yard; submarines and coastwise freight and passenger ships came from the Moran ways. When war was declared this yard had under construction a very large freighter for the Luckenbach Line.

At the outbreak of the war steel shipyards sprang up like mushrooms along the Pacific coast, and each plant acquitted itself with credit. Pacific coast yards were responsible for more records in time delivery than the yards of other sections of the country, and despite the speed with which ships were launched and delivered, the workmanship and materials were of the highest quality.

During the war and the postwar boom the shipbuilding equipment of the west coast was largely expanded, and as a natural consequence the industry has since been going through a period of adjustment. Those yards which were purely of the "war-baby" type have been liquidated, their sites put to other industrial purposes, and their plants largely scrapped. Old established yards, however, turned their attention to ship repairing and ship reconditioning, with some new construction work. Thus have they kept their organizations intact.

Of the shipyards that have remained in business in the Northwest, we find a very live, going concern in the Todd Dry Docks (Inc.), of Seattle, the largest plant of its kind on Puget Sound. This conveniently located plant contains three floating dry docks with lifting capacity varying from 3,000 tons to 15,000 tons and fully equipped shops to handle any type of ship repair. One of the outstanding jobs performed by this yard since the war was the complete rebuilding of the former naval hospital ship *Comfort*, which is now operating as the Atlantic coastwise liner *Havana* of the Ward Line.

San Francisco Bay is properly classed as the shipbuilding center on the Pacific coast, for here are located the largest and finest shipyard facilities to be found anywhere in the United States. The Bethlehem Shipbuilding Corporation owns and operates three yards on the bay—the Hunters Point Works, the Potrero Works, and the Alameda Works. The General Engineering & Dry Dock Co. operates a complete and active shipbuilding plant in Oakland, a smaller yard in Alameda, and busy repair shops in San Francisco. The Moore Dry Dock Co. has its big plant in Oakland, where ships are built and repaired.

Bethlehem's Hunters Point Works represent the largest privately owned dry docks in America. One of these two docks is 1,020 feet long and is capable of docking the largest vessels afloat; the other dock is 750 feet long. At the Potrero Works are three floating docks, building ways, and complete shipbuilding equipment. At the Alameda Works also is found shipbuilding equipment for the construction of large merchant vessels. Two giant ore carriers have been constructed by this plant since the war-time boom, as well as two

beautiful passenger steamers for the Inter-Island Navigation Co. of Hawaii, and many smaller craft, including ferryboats and barges.

The General Engineering & Dry Dock Co. started with a small shipyard on the Alameda shore of San Francisco Bay since the war. The organizers were shipbuilding officials, and they gathered together a staff of skilled shipbuilders. In their program of expansion they absorbed the big Hanlon Dry Dock & Shipbuilding plant in Oakland, which included in its facilities the largest electric marine railway in the world. This plant offers complete shipbuilding and repair facilities. The Alameda plant is a repair unit, and the large shop in San Francisco is fully equipped to handle voyage repairs of all types. Many ferryboats and bay craft have been constructed by the General Engineering & Dry Dock Co.; recently four turbine-electric cutters of the *Itasca* type were built for the Coast Guard.

The plant of the Moore Dry Dock Co. on San Francisco Bay operates a complete repair unit of 5 dry docks, 2 of which are of the floating type and 3 of the marine railway type. During the war period this plant established an enviable record for the number of ships it launched. Since that period it has constructed several splendid ferryboats, also several tankers and barges. At present this yard is engaged in the construction of a steel vessel for the United States Lighthouse Service.

Two shipbuilding and repair yards offer complete service to vessels at Los Angeles Harbor. The Bethlehem Corporation is now operating the shipyard which was formerly the Southwestern Shipbuilding Co. on Terminal Island. At this plant will be found a 15,000-ton floating dry dock and complete ship-repair service.

The Los Angeles Shipbuilding & Dry Dock Corporation operates a shipyard for the building and repair of vessels at Los Angeles Harbor, where it has a 12,000-ton floating dry dock. One of the largest reconditioning jobs done on this coast in recent years—the complete rebuilding of the former German liner *President Arthur* into the beautiful steamer *City of Honolulu*—was done at this plant.

In addition to the splendid facilities for building and repairing ships on the Pacific coast, the great distances between harbors has created a large deep-sea towing and salvage fleet which has established a fine reputation for prompt and efficient service to vessels in distress. Principal salvage and towing equipment companies are based at Los Angeles, San Francisco, Columbia River, and Puget Sound, thus effectively covering the entire coastline.

It goes without saying that special equipment and supplies are maintained at Pacific coast ports for speedy ship repair and maintenance service. In fact, a considerable part of the equipment, furnishings, interior decorative treatment, and the auxiliary machinery of several of the large passenger liners now building at Atlantic coast yards is designed and completed on the Pacific coast and shipped east for installation.

Because of the pleasant year-round weather conditions, ship operators realize the great advantages to be gained in dry docking their vessels on the Pacific coast, where at any time of the year the hulls may be washed and thoroughly dried before paint is applied. These advantages are also of great value in ship construction, as was clearly demonstrated during the shipbuilding boom. It will be recalled that a very large percentage of the emergency fleet was built on the west coast, and largely due to this fact the plants are properly equipped and manned to-day for important work.

Skilled shipbuilders are still to be had—craftsmen who know their job. These men are the nucleus for the busy crews that will build proud merchant ships on the west coast—when contracts for such work are granted on both seaboard instead of on one.

To those who know the splendid facilities—building ways, shops, equipment, and expert men—of the Pacific coast shipyards, the lack of opportunity to do a share of the construction work under way and planned seems an injustice. With a cost differential of 3 per cent or less between the two coasts, the American spirit of fair play should be shown in some manner that will preserve these efficient shipyards, keep intact the organizations that have proved their worth so well in the past. Given the opportunity, these Pacific coast shipyards can again show the world that they can build good ships.

CHAPTER 8

THE MERCHANT MARINE

REMARKS OF HON. KENNETH McKELLAR, OF TENNESSEE, IN THE SENATE OF THE UNITED STATES, MONDAY, JULY 14 (LEGISLATIVE DAY OF TUESDAY, JULY 8), 1930

AN ARTICLE ON THE JONES-WHITE ACT; ALSO AN EDITORIAL

Mr. McKELLAR. Mr. President, I ask to have printed in the Record an article on the Jones-White Act, which appeared in the New York Journal of Commerce on Monday, July 7, 1930, and an editorial of July 8, 1930.

There being no objection, the matter was ordered to be printed in the Record, as follows:

[From the New York Journal of Commerce, Monday, July 7, 1930]

JONES-WHITE ACT APPLIED AS SUBSIDY, NICOLSON CHARGES—FORMER SHIPPING BOARD COUNSEL IN PAMPHLET ATTACKS MAIL PROVISION AWARDS—REPORT BEING PRINTED AS SENATE DOCUMENT—McKELLAR TO MAKE ANALYSIS AVAILABLE—"AMAZING AWARDS" SEEN BLOW TO FUTURE AID

WASHINGTON, July 6.—Criticizing the administration of the Jones-White Merchant Marine Act as a subsidy, John Nicolson, former counsel to the committee on legislation of the Shipping Board, declared the law was not framed to function as such.

In attacking the "amazing awards" made by administration agents to private American steamship companies, under mail provisions of the legislation, Nicolson contends that the text of the law reveals no intent that it shall be applied as a ship subsidy. Nicolson's views are set forth in a pamphlet published and circulated by him with the hope that it may have a part in securing to American shipping in foreign trade "a proper form of subsidy, fair to all, and therefore one which may be relied on as permanent."

The pamphlet, first published in March last, is being printed as a Senate document at the request of Senator Kenneth McKellar, Democrat, of Tennessee, and 220 copies of it will be available in the Senate document room early this week. It is entitled "The Truth About the Postal Contracts Under Title IV, Merchant Marine Act, 1928, and Its Application as a Subsidy to Shipping," and purports to give "a revelation of facts and an analysis of policies costing the United States hundreds of millions of dollars."

FAVORS AUTHORIZED SUBSIDIES

"These criticisms," Nicolson wrote, "are by one who favors proper subsidies, properly authorized and properly administered," and are prompted by the belief that unless the present law is radically changed, it will be repealed under circumstances which will make a revival of Government aid merchant shipping "very difficult, for many years to come." In giving his qualifications for making the analysis, the former Shipping Board employee explains that the study and development of many activities of the board having in view Government aid, in various ways, to privately owned and operated American shipping, came under his supervision during his eight years of work.

After listing the amounts of compensation authorized under the various existing 10-year ocean mail contracts, Nicolson harks back to the days of Senators Frye, of Maine, and Mark Hanna, of Ohio, for guidance toward "a remedy" perpetuating a subsidy for American shipping. Details of the mail contracts outlined in the Nicolson pamphlet, along with other pertinent

information bearing on the awards, were read into the Congressional Record by Senator McKellar and Representative LaGuardia, Republican of New York, during their respective attacks upon the administration of the shipping law in the Senate and House in the session just adjourned.

DEPLORES "CAMOUFLAGE" IN CONTRACTS

"There is a constructive remedy," Nicolson declared, in that chapter of his work reviewing the efforts of Senators Frye and Hanna. "If a subsidy is intended, then let it be administered as a subsidy, and not longer under camouflage of postal contracts, permitting and promoting the violation of fundamental rights of citizens to share equally in all oppositions tendered by their Government."

In an earlier chapter the pamphlet points out that, "Ship subsidies are an extension of the protective tariff system; it is justified by similar economic conditions, and legal requirements relative to the operation of vessels further augment the handicap."

"Among the normal economic items," it continues, "are the facts that it costs much more to build a vessel in the United States than in foreign yards; also, the wages paid the crew are higher. The legal handicap mentioned results from our seamen's laws. As a result the cost of operating a vessel under the American flag is greater than operating a similar vessel under a foreign flag."

"We refer to these differences in the aggregate as the handicap of the American vessel when in competition with foreign vessels. A subsidy, therefore, should not be awarded vessels operating in coastwise trade, including, of course, our intracoastal trade, as foreign vessels are not permitted by law to operate on those routes."

SETS LIMIT FOR SUBSIDY

Before discussing the "remedies" proposed by the Frye-Hanna plan, Nicolson stresses that "the most ardent advocate of a ship subsidy would not expect the enactment of a law which would yield to any vessel of any line a subsidy greater than the sum of these items: (a) The operating deficits; (b) a proper annual deduction for depreciation in value of the vessels; (c) reasonable interest or dividend on the money invested."

When the "compensation" is greater than these, he wrote, the excess is not a subsidy in a normal sense—"it is a gift from the public treasury."

"The Frye-Hanna formula," Nicolson continued, "provided aid for all vessels above a minimum fixed by the law itself, and the factors entering the computation were all constructive. They would have encouraged larger vessels, as and when needed, for the greater the tonnage the greater the total compensation."

FORMULA WOULD HAVE SPEEDED SHIPS

He contrasted the Senators' plan with one of the mail contracts awarded under existing law, under which a motor boat "may be used and receive the same total compensation as an ocean vessel twenty times its size." Their formula, he contended, would also have encouraged faster vessels, as higher rates were provided for higher speeds.

"Under the Frye-Hanna concepts the primary responsibility of the executive department would have related to the applicant's proof of his coming within the requirements of the law, and the preparation of suitable contracts to cover the particular case," he held. "There would have been no opportunity for favoritism or for monopolic bidding, and the principle that the rights of citizens would have been ascertainable from the law, and not dependent on the pleasure or good will of administrative agents, would have been conserved."

CHARGES PERIOD OF FAVORITISM

Citing a senatorial debate on the immigration bill to show that the American people regard as fundamental government by laws and not by the will or discretion of men, Nicolson asserts that things done under the 1928 postal contracts law, "that is to say, some of the things done under that law, are, if legal, in serious conflict" with this principle.

"For there was a period," he recalled, "prior to March 4, 1929, of amazing personal control and favoritism in the award of these contracts.

"An illustration of this has been the view of the United States Shipping Board that preference should be given bids from persons who had been operators for the board of the lines involved, both on the sale of the line and in the award of a postal contract for the route.

"This preferential treatment," he continued, "is not only not required by the merchant marine act of 1920 but nothing whatever in that act justifies such a course. It is a policy which conflicts with fundamental rules applying to fiduciaries; it amounts to an option in favor of the agent, and is, therefore, not only a discrimination in favor of one citizen over another but violates the wise provision of law prohibiting the grant of options on Government property.

SOME OF PRACTICES CORRECTED

"Its evil is aggravated by the practice which has been applied in some instances of permitting the agent, after the bids have been received and published, to increase his bid and thus eliminate another higher and otherwise acceptable bidder."

Fortunately some of these practices have been corrected by the new administration, said Nicolson, in quoting a statement of Postmaster General Brown, as follows:

"I am not so clear that the preference should be given merely because an operator has operated the line heretofore. For the Government to say to some operator, 'You saw this first and therefore you have a prescriptive right; that is yours and we are going to coddle you, notwithstanding that somebody else is willing to furnish a better service at less expense, we are going to give this to you.' I personally question the sound public policy of it."

This question discussed by the Postmaster General involved in the projected sale of the American Diamond and American-France Lines, operated, respectively, by the Black Diamond Steamship Co. and the Cosmopolitan Shipping Co. The United States Lines, owners and operators of the former Shipping Board trans-Atlantic passenger fleet, offered the high bid for the two freight lines as a combined service.

AN EDITORIAL

[From the Journal of Commerce and Commercial, Tuesday, July 8, 1930]

BACKDOOR SHIPPING SUBSIDIES

A former counsel of the committee on legislation of the Shipping Board has published a discussion which he entitles "The Truth About the Cost of Contracts Under * * * the Merchant Marine Act." What he there says has interested the Senate so much that the latter has ordered it reprinted, in order the better to bring the facts as stated to the attention of the legislative body. These facts, however, are of such a nature that they ought to receive the attention of the entire American public, especially at a time when the volume of water-borne, and especially of foreign, trade has not only fallen off but is being severely attacked by the adoption of our present tariff measure. We may well ask why we should subsidize ships either directly or indirectly if we have no intention of getting trade for them.

Let this be as it may, the discussion in question deserves careful analysis on its own account as a study of administrative method. Its main point as set forth in current dispatches is a criticism of the "amazing awards" made to steamship companies under the mail provisions of the merchant marine act with the apparent idea of subsidizing the building of ships. The text of the law, according to this commentator, indicates no intention to make it a general subsidy measure, and its use as such is merely a backdoor way of bestowing subsidies upon favorites. Mr. Nicolson is, according to his own account, an advocate of properly authorized subsidies for shipping, so that he does not quarrel with the idea of subventions to American tonnage. What he does complain of is the improper and irregular use of the ocean mail contract provisions for the purpose of building up fleets of vessels operated by favorite companies or individuals. According to him, it is one of the "fundamental rights of

citizens to share equally in all opportunities tendered by their Government." But this is the reverse of what is being done.

Now that the matter is definitely before the Senate it is to be hoped that this whole question will be thoroughly investigated, with a view of finding out precisely what basis there is for these charges. Mr. Nicolson does not stand alone in making them, but there has been continuous complaint for a long time past, both in and out of Congress, because of the way in which the mail-contract provisions of the present law are being applied. Within the past few weeks an episode which has seemed to give much basis for these complaints has been furnished in the apparent efforts of the administration to favor low bidders instead of high ones in the sale of Shipping Board vessels. The *Journal of Commerce* not long ago editorially reviewed the history of this episode, showing how the making of an award had been avoided for a long period of months, and was now being still further postponed through the appointment of a committee of "outstanding men" to pass upon recent bids for vessels, notwithstanding there was nothing at issue except ability to pay the agreed price.

Mr. Nicolson in his discussion of the mail contracts refers to the same kind of favoritism, and criticizes the notion of the Shipping Board that "preference should be given bids from persons who have been operators for the board of the lines involved, both on the sale of the line and in the award of a postal contract for the route." He points out that the plan in question is "not only a discrimination in favor of one citizen over another, but violates the wise provision of law prohibiting the grant of options on Government property." While some of the bad practices complained of have, according to Mr. Nicolson, been corrected under the present administration, others have not; and indeed the episode just referred to in relation to the sale of ships shows these practices in their worst form.

There can be no doubt that our shipping and mail contract laws are being badly administered and are being used in a way to promote the interests of special favorites who want to buy ships cheap or get exorbitant postal contracts, which will enable them to make a profit out of vessels that could not otherwise pay running expenses. As things stand, a motor boat "may be used and receive the same total compensation as an ocean vessel twenty times its size." Unquestionably it is true, as alleged, that continuation of the present conditions as to selling ships and paying mail subsidies will before very long become so noisome as to compel attention to the situation and to make it essential to revise the law in the interest of ordinary honesty.

It is to the interest of the shipping trade above all to have the present practices stopped. As for the community at large, it can not be expected to tolerate prevailing political and personal favoritism such as appears to prevail in this branch of Government management.

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